7 KEYS TO FINANCIAL INDEPENDENCE

ACP
Alliance of Comprehensive Planners
MEMBER

Welcome to 7 *Keys to Financial Independence*!

If you are looking for a fool-proof, money-back-guaranteed, no-risk, get-rich-quick scheme, this workbook is **not** for you.

That's what many people are hoping to find. They believe that there is something or someone outside of themselves that will ensure their future success. If they can just get lucky enough to find that something or someone, their financial worries will be over, and they will rest easy for the remainder of their lives.

The truth is that YOU are the "someone" who controls whether or not you achieve financial independence, and your knowledge, attitudes, beliefs, decisions, and actions about money are the "something" that makes the difference. These keys will help you to exercise that control:

Key #1: Fund Your Future First
Key #2: Don't Mortgage Your "Later" to Pay for Your "Now"
Key #3: Money Is a Mind Matter
Key #4: Money Is Money
Key #5: Be an Investor, Not a Trader
Key #6: Cover Your Backside -- Diversify
Key #7: Build on Your Successes

This workbook can help you better understand your current financial situation and can help you identify areas where you need more information. It may help you discover the messages about money that unconsciously guide your decisions. It can help put you on the path from knowledge to wisdom. But it is not intended to provide you with personalized financial, investment or tax advice. And Internal Revenue Service (IRS) rules of practice require us to inform you that any tax advice included in this communication is not intended to be used, and cannot be sued, for the purpose of avoiding any tax penalties imposed by the IRS.

Financial situations are often complex. As financial advisors, we obviously believe that many people benefit from professional advice. If, after working through this material, you find that you are interested in seeing how a financial advisor can help you, we invite you to schedule a no-cost, no-obligation appointment with us.

Key #1: Fund Your Future First

Have you been telling yourself that as soon as you get a little further ahead you will start saving? As soon as you pay off just a few more bills? As soon as you get that new raise or sign that new client? If so, this first key to financial independence might just change your life.

There are three ways to accumulate wealth:

1. **Earn it** by the sweat of your brow.
2. **Affiliate with it** by birth, marriage, or "luck."
3. **Let your money make money for you**.

Most of us look forward to the day we can stop earning money by the sweat of our brow (or at least spend less time having to work for it). Affiliating with money sounds like the quickest and easiest route, but most of us aren't born to it, don't marry it, inherit it, or otherwise "strike it rich." This leaves us with letting our money make us more money, but we need to have money to start with. Hence, becoming a good "saver" is the foundation of financial independence!

Pay close attention to the key Fund Your Future First: **If you always save 10% of your gross income (even after you retire), you will never run out of money.**

How much should I save? 10% of all the money you receive. This includes gross wages and salaries, self-employment income, rental income, pensions and Social Security, gifts, allowances, lottery and gambling winnings, investment earnings, and capital gains. While you are moving toward financial independence, reinvest all the earnings on your investments. During retirement, save 10% of your investment earnings as well as 10% of your other income.

If you always save 10% of your gross income (even after you retire), you will never run out of money.

If this sounds difficult to do, think back for a minute to the last raise you received or the last sale you closed. That new income probably had you feeling really flush – for a little while. But after a surprisingly short period of time, you adjusted to your new income level, that flush feeling disappeared, and you ended up feeling just the same as you did before. Learning to save operates the same way. You'll feel a bit pinched at the beginning, but you will quickly adjust, and soon you won't miss that money that is now working for you, instead of you working for it.

Where am I now? Use this Savings Worksheet to calculate how much you are saving now and compare it to the 10% savings goal.

SAVINGS WORKSHEET

Income:
Calculate your total gross income from all sources: include wages and salaries, self-employment income, rental income, pensions and Social Security, gifts, allowances, lottery and gambling winnings, investment earnings, and capital gains. Use numbers from the last full calendar year.

Total Income $_______________

Multiply Income by 10% to identify your **Savings Goal**: $_______________

Savings:
My (not employer) contributions to retirement plans: $_______________
My IRA contributions (any kind of IRA): $_______________
Education account contributions: $_______________
Stock, bond, mutual fund purchases: $_______________
US Savings Bond purchases: $_______________
CD, money market purchases: $_______________
Long-term savings account contributions: $_______________

Total Savings **$**_______________

Divide your Total Savings by your Total Income and multiply by 100 to calculate your **Current Savings Percentage.**

If you are saving more than 10%, congratulations!
If you are saving less than 10%, you are not alone!

How can I save more? There are many reasons why we fail to save as much as we should.

- We may think in terms of saving the "extra" that's left over instead of funding our future first, but somehow there never seems to be any extra money left over to save.
- We may be living beyond our means and/or dealing with debt repayment that seems to take every penny we have.
- We may be paying too much in taxes.
- We just haven't learned how to be good savers.

One of the most important things a financial advisor can do is to help you learn how to save more without feeling deprived. We call this process Creative Budgeting. It's a remarkably simple three-step process.

1. Track your spending for a defined period of time – at least one month but no more than three months (and don't worry about tracking pennies; round everything to the nearest dollar).
2. Identify one category of spending where you want to cut back.
3. Choose a replacement activity that enriches your life.

For example, by tracking your spending you might discover that dining out is eating up more of your income than you realized and that cutting back in this area would free up the cash you need to reach your savings goal. Traditional budgeting would require you to limit yourself to a set dollar amount allowed for dining out. This does take care of the financial aspect, but it tends to leave one feeling deprived.

Creative Budgeting leaves you feeling richer, not poorer.

Creative Budgeting, on the other hand, requires that you make a substitution. Perhaps you've always wanted to explore gourmet French cooking, or Chinese cooking, or vegetarian cooking. In a Creative Budgeting program, you would still cut back on the money spent dining out, but you would take some of that cash and purchase a set of professional cookware or new cookbooks, or perhaps enroll in a cooking class – whatever you need to make a successful substitution. You may not be cutting your spending quite as quickly, but you'll be enjoying something new, eating better, maybe even sharing a new pursuit with loved ones. And you will soon have more money to put toward your savings goal. Creating Budgeting leaves you feeling richer, not poorer.

What's most important is to start. If that 10% savings goal is truly impossible right now, then pick a lower percentage and stick to it. Make it the first thing you do each time you are paid. If possible, arrange to have your savings come right out of your pay – whether as an automatic deduction for your retirement plan contribution or by direct deposit into your savings account. If you don't even see the money to start with, you will develop a savings habit painlessly.

When do I start saving? Right now. The sooner you start saving, the sooner the Miracle of Compounding begins. You've probably seen illustrations of the Miracle of Compounding before. They look like this:

Mary Beth	**Paul**
Starts saving at age 25	Starts savings at age 35
Saves $2,000 each year for five years, then stops saving	Saves $2,000 each year for 30 years
Savings at age 65: $398,524	Savings at age 65: $328,988

At retirement, Mary Beth (after saving for only five years) will have almost $70,000 more than Paul. Of course, if Mary Beth had known Key #1 and had continued to save just $2,000 each year, she would have even more - $1,002,810 at age 65.

The point is that the money we save when we're young is worth more than the money we save at a later age. If you have children, teaching them Key #1 at the earliest possible age is one of the greatest gifts you will ever give them. But even if you're not so young any more, you can still start to Fund Your Future First.

> ***The money we save when we're young is worth more than the money we save at a later age.***

Where do I save my money? For most of us, the first place to put our savings is in our retirement plans. Tax-deferred earnings and, in many cases, employer matches are a hard-to-beat combination. If you have no immediate liquidity (cash readily available for emergencies), however, you may need to start your savings outside your retirement accounts. The absolute best place for you to be saving your money is, of course, dependent on your individual circumstances and goals. We can help you consider all aspects of your situation and then make recommendations tailored to you.

Key #2: Don't Mortgage Your "Later" to Pay for Your "Now"

If you always save 10% of your gross income (even after you retire), you will never run out of money (Key #1) **AS LONG AS YOU ARE LIVING WITHIN YOUR MEANS** (Key #2). If credit cards and installment loans are funding your lifestyle, this key will be critically important to you.

Most people do not understand that there is "good debt" and "bad debt." Debt is "good" only when:

1. Whatever is financed lasts longer than the loan, **and**
2. Financing provides positive leverage.

The *right* home mortgage is good debt because it meets both of these criteria. Presumably, your home will outlast your mortgage, and the financial benefits of home ownership (tax-deductible mortgage interest, tax-deferred or tax-free growth on your investment, and more) are greater than the costs of financing your investment.

An education loan is also usually good debt. The value of your education lasts your entire lifetime, and you are able to make more money because of that education. Even a car loan can be good debt if it's for a short enough duration (maximum 3 years) and you are buying that car to get to work where you are earning money. But remember – a debt must meet both criteria in order to be considered "good."

What about the other things that we go into debt for – furniture, vacations, clothing, dinners, entertainment? If the credit card you are using to pay for those items is not paid off in full at the end of each month, you are accumulating "bad debt" that will come between you and your financial independence.

Let's be completely honest. The reason we finance furniture, vacations, clothing, dinners, and entertainment is because WE CAN'T AFFORD THEM. But we try to hide the fact that we can't afford them behind "12 Months Same As Cash," "Low Introductory APRs," and "No-Fee Balance Transfers."

Living beyond our means is living out of integrity with our personal values and mission. Eventually, if not immediately, this becomes a painful way to live.

Key #2: Don't Mortgage Your "Later" to Pay for Your "Now"

I'm feeling the pain. Where do I start? The first step is to make a full and clear accounting of all your current debt. Gather together all of your most recent credit card statements, installment loan books, and credit line statements and fill out our Debt Reduction Tracker on the next page (make additional copies as needed). Make sure to note credit limits and interest rates.

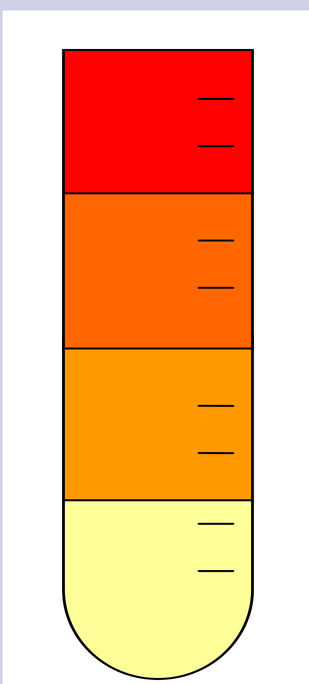
Once you have recorded everyone to whom you owe money and how much you owe, you can figure out where you are on the Debt Recovery Gauge.

THE DEBT RECOVERY GAUGE

What is your Total Annual Income? $________________________
What is your Total Consumer Debt? $________________________
(Do not include home mortgage or education loans.)

Divide Total Consumer Debt by Total Annual Income, and multiply the answer by 100 for your Debt/Income Percentage and compare to the gauge below.

Debt/Income Percentage: _______________________%



Debt/Income %	Actions to Take
45% + Critical	There are limited solutions beyond bankruptcy planning. Seek immediate professional assistance.
25% to 45% Serious	Major lifestyle changes to decrease expenses and/or increase income are required.
10% to 25% Guarded	Get rid of credit cards. Implement a spending plan and consider possible debt consolidation.
Less than 10% Acceptable	Review options for speedy elimination of debt and monitor debt regularly to ensure that it is not increasing. Negotiate for best interest rates.
0% Ideal	Congratulations!

DEBT REDUCTION TRACKER

Update Monthly

CREDITOR ________					CREDITOR ________					CREDITOR ________					CREDITOR ________				
CREDIT LIMIT $ ________					CREDIT LIMIT $ ________					CREDIT LIMIT $ ________					CREDIT LIMIT $ ________				
INT. % ________ MO. PYMT. ________					INT. % ________ MO. PYMT. ________					INT. % ________ MO. PYMT. ________					INT. % ________ MO. PYMT. ________				
MO.	BALANCE	CHG.	PYMT.	INT.	MO.	BALANCE	CHG.	PYMT.	INT.	MO.	BALANCE	CHG.	PYMT.	INT.	MO.	BALANCE	CHG.	PYMT.	INT.
J					J					J					J				
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A					A					A					A				
S					S					S					S				
O					O					O					O				
N					N					N					N				
D					D					D					D				

Key #2: Don't Mortgage Your "Later" to Pay for Your "Now"

If you are feeling discouraged right now, take heart! The very fact that you are reading this workbook and taking a serious look at your debt situation means that you are already on the road back to financial independence. You might want to consider how professional assistance can help structure your recovery for maximum benefit. Freeing up dollars being overspent in other areas of your financial life (taxes, investments, insurance) might speed up the recovery process.

Which is more important – saving 10% or paying off debt? Saving. Surprised? It might not seem logical, but looking long-term at financial independence, it is more important to develop the "savings muscle" than to continue to exercise the "paying muscle."

Is taking advantage of "0% Financing/Same as Cash" offers ever a good idea? Yes, it can be. Just apply the Good Debt/Bad Debt guidelines explained above. Whatever is being financed must outlive the loan, and you must gain leverage by financing. If taking advantage of one of these offers means that you can keep your money earning money during the finance period, then you are gaining positive leverage. But if you are using one of these offers to buy something that you can't pay for in cash, then you are in the area of bad debt.

Likewise, using a credit card to take advantage of rewards offers is great if you are paying off your balance in full each month. But the finance charges for carrying a balance are costing you far more than the value of the rewards you may receive. Keep in mind, too, that the companies that offer these financing deals are still in business to make money. You will probably pay more for the item in order to get the special financing than you would if you were paying cash. So always think twice before jumping into these arrangements and do your homework.

Key #3: Money Is a Mind Matter

Do you have a healthy attitude about money? Have you ever given much thought to your attitudes about money and how those attitudes were formed?

Our attitudes and belief systems about money are of critical importance in our quest for financial independence. What we think about money can keep us from reaching our earning potential. What we think about money can keep us in poverty. What we think about money can keep us working so hard that we miss out on so much that life has to offer. Yet because "money" is right up there with (or higher than) "sex" on the list of taboo subjects in most families, you probably have not given this much thought.

When we think that our financial choices are effective but in reality they are not appropriate to our goals, we are in some measure "financially dysfunctional." Something isn't working the way it should, and the place to look is at our thought patterns.

Let's use "living within our means" as an example. Some of the common attitudes expressed by those not living within their means include:

> "I just don't make enough money."
> "I don't know where my money goes; I just know it's gone."
> "I deserve to live this way – all my friends do (or, I work hard)."
> "I don't spend money on anything I don't need."
> "But my credit rating is fine – they keep raising my credit limit."

> ***"Money" is right up there (or higher than) "sex" on the list of taboo subjects in most families.***

All of these statements probably reflect some measure of financial dysfunction. Perhaps all that's needed to correct the imbalance is more information. Those who make these statements might need to track where they spend their money for a period of time. Or they might need some financial education on the costs of credit. Their attitudes could simply reflect the money messages they were raised with and have adopted as their own without really thinking about it. Or they could be reacting to an emotional injury – childhood deprivation is a common example.

When you read the phrase "living within your means" do you automatically think about needing to spend less? Most people do, yet it's actually easier to earn more than to spend less. But many people settle for less than achieving their earning potential because of "poverty mentality."

Poverty mentality can be indicated by the following statements:

> "I can't earn any more; my company gives only 3% annual raises."
> "The market doesn't pay any more than this in my area."
> "Rich people make other people poor."
> "Money is the root of all evil."
> "If I charge more, those who need me can't afford me."

Just as poverty is a state of mind, so is wealth. Real wealth is not about how much money you have, yet many rich people believe that their value is measured by the bottom line on their balance sheet. They may think that they're not really wealthy because others are wealthier. They may become so caught up in the pursuit of wealth that they never enjoy the fruits of their labor. Wealth is the result of being properly valued in your society, being paid accordingly, and then living within your means while saving enough to provide for your future. The key to financial independence lies in knowing how much is enough.

Other financial dysfunctions include inappropriate risk reactions (either taking too little or too much risk), miser mentality (an inability to spend what has been accumulated, even though it is more than sufficient to meet future needs), acute financial paranoia (whether personal or global), and windfall woes (reactions to inheritances, lottery winnings, divorce settlements, or other large sums of money).

Most financial dysfunctions share one common theme – that something outside ourselves controls our destiny. **We fail to believe that we can choose financial independence**.

The key to financial independence lies in knowing how much is enough.

The effects of financial dysfunction are evident in our relationships with others. Because money is a mind matter, our relationships with others are profoundly impacted by our beliefs and attitudes. Whether it's the parent-child relationship, or spouse-spouse, or sibling-sibling, or employer-employee, money touches all of our closest relationships at some point or another—or maybe every day! How much would your life be improved if you could communicate easily and effectively about money issues?

An exercise that helps many people is the Money Autobiography. We've included questions regarding money in your past, your present, and your future to get you started. Use these as a guide in exploring how you are being affected by the money messages you have received. And remember: Only the past is already written. Your present and your future

Money & Your Past

1. Did your family come to America for any motive related to *money*? When?
2. What else do you know about your family's economic history?
3. Which of your parents' or ancestors' *money* decisions continue to affect you today? How? Be specific.
4. How did your mother address *money*? Your father? How did they differ?
5. How did they address *money* in their relationship? Did they argue or maintain strict silence? How did that impact you?
6. How did you relate to *money* as a child? A teenager? A young adult? An older adult? Did you feel poor/rich? Were you anxious about *money*?
7. What is your first memory of *money*?
8. What is your happiest moment with *money*? Your unhappiest?

Money & Your Present

1. How do you feel about your present financial situation? Are you financially fearful or resentful? How do you feel about that?
2. Is *money* a source of tension in your relationship with your spouse or partner? With your children? With your parents?
3. If you are well-off today, why are you working?
4. Are you generous or stingy? Do you treat? Do you tip?
5. Do you give more than you receive or the reverse? Would others agree?
6. Could you ask a close relative for a business loan? For rent? For grocery *money*?
7. Do you judge others by how you perceive they deal with their *money*?
8. What part does *money* play in your spiritual life?
9. Do you live your *money* values?

Money & Your Future

1. Do you worry about your future?
2. Are you *money*-motivated? If so, why? If not, why not?
3. Will you inherit *money*? How does that make you feel?
4. Do you feel guilty about your prosperity?
5. Are you afraid that you will run out of *money*? Have you sought out a professional opinion?
6. Are you using your *money* to create lasting memories for you and your loved ones? Describe.

This Money Autobiography is based on the work of Richard Wagner, JD, CFP® of WorthLiving, LLC.

Key #4: Money Is Money

When we were children, most of us learned some variation of the envelope system of budgeting money. You know…this envelope is your lunch money, this one is your holiday presents money, this one is your new bike money, and so on. This system is an effective technique for teaching children to save and to plan. And while it may still be useful for some adults when budgeting for <u>short-term</u> needs, it is not a useful tactic for investments, which are by definition <u>long-term</u>.

When we say "Money is money," we are really saying "Be efficient with money when investing." When you invest money you should invest it in the most efficient vehicle; when you need money you should take it from the most efficient source. It is not efficient to buy a life insurance policy or a mutual fund for your child if you are not fully funding your 401(k) or 403(b). Nor should you be making extra principal payments on your mortgage if you are not funding your SEP or Solo 401(k). None of us knows what the future holds. Financial independence comes from making the best decisions in the present.

It really comes down to following a few simple priorities.

1. Always fund your retirement first—everything else is secondary.
2. As much as possible, put interest-earning vehicles (such as CDs, bonds, and bond funds) in tax-deferred accounts.
3. Don't borrow from your 401(k) or IRA unless you absolutely have to – don't rob from your future to pay for your present.

A college fund for children is one of the most common "envelopes" we see today. The spiraling costs of a college education coupled with an assortment of new college savings vehicles has many people making inefficient decisions regarding their investment savings.

> ***When we say "money is money," we are really saying "Be efficient with money when investing."***

Many parents forget that when their children go to college, there may be ways to pay for it out of current earnings: Students may get a scholarship or receive student loans; parents may take out a home equity loan or gift stock to their children to sell at a lower capital gains rate.

Similarly, retired people frequently become preoccupied with the adamant belief that their investments must produce income. Generally it is much more advantageous to structure a portfolio to include investments that provide growth, such as tax-efficient mutual funds, even if they don't provide income. It is easy enough to periodically sell enough fund shares to provide the desired amount of cash flow, and the portfolio will be more productive since taxes will be substantially reduced.

Here is a great true story of a client saving in the most efficient place and using money from an efficient source.

> A couple was hit by the economic downturn, and the husband lost his job. They had saved 10% of their income for the last 20 years, almost completely in retirement accounts. Because this money was in retirement accounts, it didn't count toward the Expected Family Contribution (used in college financial aid formulas), so they were able to qualify for financial aid. The oldest child found a job on campus and began taking college much more seriously than he had during his freshman year when the parents were footing the bill. The couple will have two children in college in September and will qualify for additional financial aid, a majority of which will be grants that don't have to be paid back. The rest of the college expenses will be paid with low-interest student loans. The combination of student jobs, loans, and grants will make it possible for both children to attend college , and the parents will be able to handle the other family bills through odd jobs and cuts in spending.
>
> If they had saved for their children's education in a 529 college saving account instead of their own retirement accounts, the 529 accounts would have been "counted," and the picture would be much different.
>
> The couple had always read about the disadvantages of saving in the children's names but didn't think they would be personally affected. They are extremely grateful for the grants and hope to someday make a donation to the college to help others.

Test Your "Money Efficiency"

1. Does it make sense to borrow from your 401(k) to buy a car? Y or N
2. Does it make sense to hold municipal bonds/bond funds in an IRA? Y or N
3. In which type of account does it make sense to put a bond or bond fund - IRA or regular brokerage account?
4. In which type of account does it make sense to put a stock mutual fund – IRA or regular brokerage account?
5. Does it make sense to purchase an annuity with your IRA savings? Y or N
6. Given the choice, do you save for retirement or save for your child's education?

See answers on next page

Answers

1. **No** – You are robbing your future to pay for your present.
2. **No** – You don't have to pay federal income tax on interest from municipal bond funds. It would be more efficient to have this in a regular brokerage or non-IRA account.
3. **IRA account** – Interest is taxed as ordinary income. By putting your bonds and bond funds into IRA accounts you defer those taxes until retirement, when you will presumably be in a lower tax bracket.
4. **Brokerage account** – You are not taxed on the growth of equity investments until you sell them, so you don't need the tax deferral of an IRA account. Plus, you will have more choices on how to most efficiently use your gains.
5. **No** – You are unnecessarily duplicating the tax advantages of each vehicle while incurring higher investment costs and reducing your options.
6. **Your retirement** – You can always take out a student loan for your child's education (student loans are "good debt," as your child's education is an appreciating asset). You cannot take out a loan for your retirement.

Key #5: Be an Investor, Not a Trader

The difference between an investor and a trader is this: The investor invests for the long term; the trader seeks profits by exploiting short-term market swings. Many individuals try to play the trader game, thinking that they can come out ahead by timing the market. They don't realize that traders are full-time professionals; they spend all day everyday buying and selling, and even then they lose as often as they win. You cannot win in that game.

You do, however, need to learn how to be an investor, meaning that you do need to be in the stock market. If you're in the market, you will take advantage of the "big" moves the market makes. Fidelity Investments did a study that showed that in the last 20 years the biggest upswings of the market happened on 17 specific days – so if you weren't in the market on those days, you missed the market moving up.

Being an investor focused on the long term will help assure your retirement. Employees used to depend on defined-benefit pensions - you work for ABC Company for 30 or 40 years, and you get X amount of pension. Because of the prohibitive cost of these pensions and the increasing disenfranchising of a mobile work force that doesn't stay employed at one company for a lifetime, there has been a massive shift to defined-contribution pensions.

> ***Being an investor focused on the long term will help assure your retirement.***

This means it is largely up to you to fund your own pension, so tax-deferred 401(k)s, 403(b)s, SEPs, and Solo 401(k)s have mushroomed. There has been a corresponding explosion in awareness and involvement in investments by the average citizen. Because you have to make your own decisions on how your pension is invested, you have to learn about investing for the long term, including how mutual funds work and how rates of return are measured.

Thus it is important for you to know the following things:

- How much money should you save for retirement?
- What accounts should you fund – regular IRA, Roth IRA, 401(k), 403(b), or others?
- What investments should be in what accounts?
- What are the right investments for your risk tolerance?

We've touched on most of these topics in the preceding keys. Here, we'd like to talk a little about risk tolerance. ACP advisors take a different view of risk tolerance than most other financial planners. We don't believe the question is how much risk you can tolerate. (After all, does the surgeon ask you how much pain you can tolerate and then gauge the anesthesia accordingly?) We believe the correct question is how much risk is appropriate for you, given the other risks you are already exposed to in your life. Likewise, we don't think that how you feel about risk is the only deciding factor. Risk is situational, and how you feel about risk changes accordingly. We've adapted the risk assessment questionnaire we use with clients and provided it to you here so that you can view your risk "tolerance" from a holistic point of view.

1. How much do you save, stated as a percentage of income? Select one.

Less than 8%	Score 10 Points	
8% - 12%	Score 5 Points	
More than 12%	Score 0 Points	**Score:**___________

2. How much other risk are you taking? Select as many as apply.

Obvious job insecurity	Score 5 Points	
Self-employed	Score 5 Points	
Own rental real estate	Score 5 Points	**Score:**___________

3. How knowledgeable are you about investments? Select one.

Not very	Score 10 Points	
Moderately	Score 5 Points	
Very	Score 0 Points	**Score:**___________

4. How much experience do you have with investments, including down markets? Select one.

Little or none	Score 10 Points	
Moderately experienced	Score 5 Points	
Very experienced	Score 0 Points	**Score:**___________

5. How well is your real estate leveraged (total mortgages as a percentage of total fair market value)? Include personal residence(s), rental or income properties, and commercial property. Select one.

Paid off/no mortgage	Score 10 Points	
More than 100%	Score 10 Points	
80 – 100%	Score 5 Points	
Less than 50%	Score 5 Points	
50-80%	Score 0 Points	**Score:**___________

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6. Does your investment portfolio contain a structured ladder of US government securities?

No or don't know	Score 10 Points	
Yes	Score 0 Points	**Score:**___________

7. Are others financially dependent upon you? Select as many as apply. Score 5 points if you provide full support, 3 points if partial support, 0 points if not applicable.

Spouse	Score 5 or 3 or 0	
Children	Score 5 or 3 or 0	
Parents	Score 5 or 3 or 0	**Score:**___________

8. How do you rate your emotional tolerance for taking risk?

Low tolerance	Score 10 Points	
Medium tolerance	Score 5 Points	
High tolerance	Score 0 Points	**Score:**___________

Total Score:___________

Answer Key:

0 – 30 Points Your other risk exposures appear to be minimal. You can probably take on higher risks in your investment portfolio, providing the rest of your financial house is in order. A complete review by a financial advisor can help you determine where you are in the Financial Life Cycle and pinpoint areas that might need attention.

30 – 60 Points Your other risk exposures appear to be moderate. Specific asset allocations should be determined by your stage in the Financial Life Cycle and in the context of your overall investment strategy.

60+ Points You are already carrying a lot of risk in your life. Lower risk exposure in your investment portfolio is appropriate. A financial advisor could help you eliminate some of these existing risks, allowing you to increase your investment risk accordingly. You would also probably benefit from annual reviews of your investments.

Key #6: Cover Your Backside - Diversify

We have all learned the wisdom of the old adage "Don't put all your eggs in one basket!" Nowhere is this more important than in investing. However, it's often difficult to accept the fact that having a well-diversified portfolio means you will always have something going up in value, and you will always have something going down in value.

The investor who believes that bonds are the best and only investment for a portfolio, and another who believes that bonds are foolish and only stocks make sense, are both courting very high risk exposure. It is diversification among stocks, bonds, and real estate, along with a balance between long- and short-term investments, and exposure to both domestic and foreign markets, that lowers the risk of the total portfolio and enables investors to take risks on individual investments which would be too risky by themselves.

In the late 1990s, you almost couldn't go wrong investing in stocks. Then the market shifted, and bonds were the winners. And on and on it goes. The key is to stay the course. We all have a tendency to "shoot where the rabbit was." To try to move everything now into blue chips or into technology stocks (the darling of the late 90s) is folly. Diversification is the best strategy you have to reduce your risks in volatile financial markets. Your asset allocation should be determined by your stage in the Financial Life Cycle, your risk tolerance, and your tax situation, not by whatever asset class was hot last year.

Being an investor focused on the long term will help assure your retirement.

At ACP, we use the concept of the ACP Pyramid. It is a visual representation of your net worth and the diversification of the assets you own. At its broadest level, the ACP Pyramid classifies assets into three categories – equities, real estate, and interest-earning investments. We want to make sure that our clients are balanced across all three of these categories.

You may find the following analogy useful: Think of your portfolio as a farmer would think of his farm. Your equities are your crops in the field. Your real estate is your garden. And your interest-earning investments are your pantry.

Your equities (crops in your field) are your livelihood. You minimize the risk of being wiped out by planting more than one crop (diversification), and you rotate your crops to maintain soil health and nutrient levels (regular reviews and rebalancing).

Your real estate (garden) protects you from inflation. If prices rise, you can be self-sufficient by harvesting from your garden. You also get personal enjoyment from your garden, from the flowers you plant. You don't compare your garden to your crops in the field. They serve two very different purposes.

Your interest-earning investments (pantry) provide you with capital preservation. In the good years, you lay up the surplus from your garden and some of the proceeds from your crops in the field so that you are protected in the lean years. You can survive several years of drought because you can support yourself and your family out of your pantry. You don't compare your pantry to either your garden or your crops in the field. All three serve very different purposes, and all three are necessary.

Are you properly balanced? Fill in the following to see:

Value of **Interest-Earning Investments** (savings, checking, CDs, bonds, bond funds). Include interest-earning investments in both retirement and non-retirement accounts.

$ ____________________

Equity in **Real Estate** (Fair Market Value less all mortgages and lines of credit for personal residence(s), rental or vacation homes, commercial real estate, and REITs)

$____________________

Value of **Equity Investments** (individual stocks, domestic and foreign mutual funds, employer stock, stock options, book value of own business, partnerships)

$____________________

Total $____________________

Each asset class should be **roughly** 1/3 of the total – that way you are balanced: The crops in the field, the garden, and the pantry are all contributing to your sustainable net worth. And you are prepared to weather any "down" years.

Key #7: Build on Your Successes

The most critical points in your journey to financial independence come at transition points. Sometimes a transition is part of the natural growth process, but often it is the result of some life trauma: a death, divorce, disability, or job loss. Transitions require us to re-evaluate our goals, to re-examine our belief systems, and to change our strategies.

These transition points are frequently marked with anxiety and confusion. We are not sure what we really want, or what we can realistically expect, or how to go about achieving it. We may find ourselves disconnected from our sense of purpose and from our values.

Without professional advice, it is easy to make some of our biggest mistakes at these points. We want to think that we can rearrange our lives to eliminate all the awful problems we have to deal with. The temptation is often to completely break with our past. The employee quits his or her job and goes into business, or takes early retirement. The successful entrepreneur starts another business.

Transitions do require us to change, but we need to manage that change successfully. We tend to believe that if we can change the circumstances around us just so, all of our problems will disappear. But change without planning, change in reaction to the stress of transition rarely accomplishes what we hope. What is more likely to happen is that we trade one set of problems for another and discover too late that we were better equipped to deal with our old familiar problems than with our new ones. We've all heard stories of the person who retires too young and ends up feeling useless and irrelevant, or the former employee who discovers that he really doesn't like the business he started.

> ***The most critical points in your journey to financial independence come at transition points.***

Transitions are catalysts for growth, and it is important to view them as new opportunities rather than with a sense of foreboding. One key to moving through them is to build on your past successes rather than start all over. Look at the strengths you have developed and the knowledge you have acquired and find new ways to utilize those in a new environment. If you want to start a new business in a field in which you have no business experience, first take six months or a year and work for someone else in that business. At least then you will find out if you even like it, and you can make your mistakes at their expense, plus perhaps learn something from their mistakes - and their strengths.

As holistic financial advisors, we think that it is at these transition points that we add the most value. Indeed, most new clients come to us when they are in the midst of a transition, or when they want to be able to move forward but are feeling stuck and don't know why. We are able to provide an objective view of their situation and help them to recognize the dangers, opportunities, and strengths they are dealing with. We help them deal with transitions in the context of their goals and values. Indeed, we regularly conduct goal-setting appointments with our clients so that we keep focused on what most matters to them. We help them to avoid costly mistakes and provide them the peace of mind to focus on their dreams, confident that their financial affairs are in order and working to their advantage.

We hope the keys we have shared in this workbook will help you navigate the transitions in your life. If you would like additional assistance, we invite you to contact us for a no-cost, no-obligation consultation.

One last note – the information presented in this workbook is based on the work of Bert Whitehead, MBA, JD, the founder of the ACP and the ACP System™. Bert has made it his life's work to make holistic, fee-only financial planning available to everyone. This workbook could not have been written without him.

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