WHAT WE DO

MISTAKES MOST RETIREES MAKE

The financial plan is the centerpiece of our services. Financial planning and investment planning are not the same thing. A financial plan encompasses everything and puts all of your financial issues in one place that all work together toward your goals. Investment planning is only one portion of the financial plan. Our financial planning takes place as follows:

Mistakes

1. Most people are confused about the term “financial planning” and do not truly know what all it entails.
2. Not setting goals clearly and precisely.
3. Not keeping finances organized.

The financial plan begins with the analysis of your budget and the setting up or review of your spending plan. Health care and potential capital expenditures (such as replacing a car) require the most consideration. Our philosophy is that health care should probably be a high priority item. Good health care helps promote long life and better quality of life.

This area also requires monitoring as spending changes over time. Taxes will go up, utility costs will go up, etc. Health care will go up the most and will be the most unpredictable, but there could also be new expenditures in the spending plan such as vacations, helping a family member, etc.

Mistakes

1. Most people don’t monitor their spending and don’t realize it when spending gets increased in any one area.

The next portion of the financial plan looks at income. Income will come from three areas – social security, pension plans, and investments. Our philosophy is to provide fixed income investments to meet the income objectives. This would include T-bills, CDs, fixed annuities, corporate or municipal bonds, etc.

We believe this area needs continuous monitoring as well. As interest rates change, these investments are affected. Reinvestment risk is present and we need to try and anticipate the degree of reinvestment risk. In order to reduce this risk or to take advantage of economic opportunities, it is sometimes advisable to change these investments.

Mistakes

1. Not matching the proper product to the proper investment objective.
2. Not changing the product when the economic environment suggests a better one would be more appropriate. Making the assumption that because a product worked well in the past, that it will do well in the future.

Now that income has been addressed, the next step is to compute the amount needed to be invested to insure that your income and purchasing power will last as long as you need it to. Probably more mistakes are made in this area than in any other. The amount needed to be invested for growth needs to be accurately computed. The time horizon also needs to be accurately completed and analyzed with market cycle simulations performed (market cycle simulations are analyzing the investments beginning at various stages of the economic cycle. Investing at the very beginning of a down market could be disastrous – especially if any withdrawals are made during that time).

We believe in using a disciplined and unemotional system of investing. We believe risk should be kept as low as possible and trying to avoid the big loss is more important that achieving the big gain. Individual stocks, bonds, mutual funds, and variable annuities can all be used. If possible, we also like equity indexed annuities, preferred stocks, convertible bonds, etc. to reduce risk. We will also use mutual funds in combination with risk reduction strategies and programs. Fixed income investments are often not appropriate here (with the possible exception of bonds) as they do not provide the growth necessary.

Some people have the assets where they do not need growth. In these cases, if their risk tolerance is really low, then they can accept the loss of purchasing power every year and still reach their goals. However, these people are the exception and not the norm.

Constant monitoring is required due to the changes in the economy and the various stock and bond markets. This is one of the major reasons why we require quarterly reviews.

The situation becomes even more muddled when there is not enough money to reach the income and growth goals separately. In these cases, one investment is made to address both goals. This can be difficult because downturns in the market at the wrong point in the financial plan can be disastrous to the overall plan. This is why we believe the timing strategy is even more important (the timing strategy tries to time the market so you are out of it during downturns). Sometimes we will use a buy and hold strategy if we can get minimum guarantees in place. Monitoring these situations is critical as the plan has little margin for errors and the economy is so unpredictable that there are almost always errors in assumptions.

Mistakes

1. Underestimating how long you will live.
2. Underestimating how much of a risk inflation is to your purchasing power.
3. Not taking enough investment risk to offset the inflation risk.
4. Not making proper calculations in how much is needed to invest for growth.
5. Improper products are often used to achieve this objective.
6. Not using proper risk reduction strategies.
7. Using average rates of returns and average rates of inflation in computing how long your money will last. Not taking market cycles or random investment fluctuations into account.

Next we look for dangers to the financial plan. What could occur that could keep you from meeting your goals? And how do we address these dangers? Everyone will need the long-term nursing exposure analyzed. Should you have insurance or is self-insuring appropriate? We also look at your Medicare Supplement insurance. Is it necessary and is it enough? Then we look at the exposure to new drugs that aren’t covered and the inability to find Medicare doctors. We add extra to the spending plan if necessary. Usually we can tell if the danger is present in the short term, but we can never be sure about the medium term or the long term so we must prepare for both.

Investments are usually similar in nature to the growth investments. Again we prefer to try and time the market in order to reduce risk. The buy and hold strategy promoted by so many of our competitors does not work here as you do not know when you will need your money.

Mistakes

1. Ignoring the fact that nursing care on a long-term basis may be required for either you or your spouse.
2. If self-insuring this exposure, taking on way too much risk.
3. Not buying the right type of long-term care insurance policy and not fully understanding the details of the policy in terms of what triggers the coverage.
4. Deciding to self-insure but not adequately funding the exposure.
5. Allowing one spouse to dominate the desire for no insurance without fully exploring the other spouse’s feelings.

Another danger to the financial plan we must look at is taxes. Tax laws are very confusing and often aren’t what we call simple solutions. Many tax strategies can be complex and a lot of people fail to see the advantages and therefore consider them risky. However, any tax strategy we use will be a proven solution and will be legal. We prefer to avoid the “gray” areas or at the very least we make certain you are aware when you are in one.

Many clients have a CPA who does their taxes. Even though tax preparation is often included in our services, they prefer maintaining their CPA. This is fine as long as we are able to develop a relationship with the CPA to implement his ideas and strategies with ours into your overall financial plan.

Mistakes

1. Not implementing tax avoidance techniques because they are not easily understandable and deeming them IRS risky when they are not.
2. Becoming too comfortable and complacent with your current setup because that setup is working ok.

Once all dangers to the financial plan have been addressed, then we look at your emergency reserve funds. How much money needs to be set aside for this goal and how should it be invested? Can the solution be combined with the solution of another objective? There are short-term emergencies and long-term emergencies and these monies should be invested differently. In the short-term, the money needs to be very conservatively invested and we recommend CDs, money market accounts, savings accounts, etc. The long-term emergency reserve money needs to be invested with a growth style in order that inflation does not diminish its power. Again, the philosophy is to protect the purchasing power or the asset more so than to grow the asset. Our approach is to again use a timing strategy and to use risk reduction strategies.

Mistakes

1. Not setting this up as a separate objective. Not clarifying the goal and calculating the proper amount of money needed to meet it.
2. Improper products are often used for this objective.
3. Not using proper risk reduction strategies.

And finally, we look at other opportunities for how the remaining money can best be used to increase your life’s satisfaction. Quality of life can be improved. This does not necessarily mean spending it on you. Rather it may mean gifting some to your children, paying for a grandchild’s college, helping a child start a business, loaning money to a friend or family member, taking friends or family on vacations, etc. Giving money away can be very rewarding to some people. Others may not want to do that. We will help you discover what will give you increased satisfaction in your life and how this money can best accomplish that.

Mistakes

1. Inefficient use of your money. Money is not being used for its highest and best purpose.
2. Not considering the possibilities of how your money can bring you increased happiness.

Our real skill comes into play when there is not enough money available to cover all of these areas. We then have to prioritize the most important ones and try to find the right balance among them.

This means knowing a great deal about you. Often we ask you things you haven’t thought about. The process actually helps you to become clearer as to who you are and what you want from the remaining years of life. This will make your priorities clearer and allow us to achieve the balance in your life you seek. This has to be monitored on an ongoing basis as priorities change and things can quickly become out of balance. For example, a big vacation a year may be a high priority for a while, but becomes less of one later in life. As a result, your investment objectives will change and your investments should change according to this new goal.

Financial planning offers a value in helping you to clarify your goals, your dreams, and your desires. It helps in determining your priorities and how much of your assets should be allocated in each area of your life. Often people have not given this enough thought and/or allocated the proper amount of money to each priority. Therefore, their life is out of balance from what they really want and they are not as happy as they could be. While we call it financial planning, it is really life planning that results in allocating your assets to your life according to your plan. Everybody’s wants and dreams are different and prioritized differently. We feel it is impossible to accomplish this over the internet or to use the same approach with every person. It is highly personal and requires face-to-face communication in order to truly accomplish it.

Are we better than your current financial planner? We say we are. We spend more time determining what you want before we start trying to provide it. We service you better with quarterly meetings that monitor your results to your financial plan as well as your investments. Our investment philosophy is different in most, but not all areas. But for sure our investments are more focused on what they will accomplish for you and not just for what their rate of return will be. We don’t judge our success, or your success, by the rate of return, but rather by the accomplishment of the goals as set forth by the financial plan.

Our strategies are different, our investment philosophy is different, our service is better, and we will create a better relationship with you. We care more.