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FINANCIAL SUCCESS OR FAILURE, YOUR CHOICE

By Fred Dunbar

Should you do a financial plan? And if so, how? The first part is easy, and the answer is a resounding YES. The second part is not so simple. The Rolling Stones had a classic hit in 1969, "You Can't Always Get What You Want," with the telling lyrics, "but if you try sometimes, you might find you get what you need." Well, you might want to retire and be wealthy, but unless you inherit your fortune, you will NEED to plan for it.

Financial planning is a comprehensive evaluation of your current and future financial state. Although it sounds complicated, it is nothing more than a road map of where you are now and where you want to be. It is based on your goals and how much risk you are comfortable taking. A plan includes variables to help predict cash flows, how assets grow, and a withdrawal plan for when you retire. A financial adviser would provide you with a written or an electronic report including a detailed plan designed to help you achieve your stated financial goals and objectives.

You might choose to do a complete financial plan, or maybe you only need one of the following segments to address your area of concern. Parts of a financial plan might include the following:

Budgeting and Cash Flow might be all you need to get your plan jump-started. This is a review of your income and expenses, with advice prioritizing how any surplus should be invested or which debt should be paid first based on factors such as interest rate and income.

Education Planning might be your biggest concern right now. This includes projecting the amount of money you will need for secondary education and college as well as advice on ways to save the desired amount to put your kids or grandchildren through school with the least amount of debt. This can also include eligibility for financial aid.

Fringe Benefits Analysis will provide a review and analysis of whether you're taking the maximum advantage of your employee benefits. Too many individuals don't contribute to their company retirement plan or contribute enough to get the full employer matching contribution, which is basically leaving free money on the table. This analysis can also include a review of your stock options.

Estate Planning Analysis will usually focus on an analysis of your exposure to death taxes, your current estate plan, and whether you have a will, durable power of attorney, trust, or other related documents. This is where many people procrastinate. Excuses range from "We're just too busy to meet with an attorney" to "I'm afraid that once we do our wills, we will die." Well, face the fact that you are not getting out of life alive. Get it done, so there is an orderly transition of your wealth.

Investment Analysis and Planning might involve developing an asset allocation strategy to help meet your financial goals. The analysis should also provide information on which investment vehicles and strategies you should select based on your risk tolerance, age, and objectives. This might also include establishing an investment account, if you do not already have one.

Retirement Planning is the most common segment people request. It typically will include projections of your likelihood of achieving your retirement goal, which is financial independence. If your plan shows that you will run out of money, recommendations might include working longer, saving more, spending less, adjusting your risk with investments, or a combination of these changes. If you're near or at retirement, recommendations might include a spend-down strategy to minimize the likelihood of running out of money, which is most people's greatest fear.

Income Tax Planning Analysis will include ways to minimize current and future income taxes as part of your overall financial picture. Of course, this is based on the current tax laws. Financial advisers will generally recommend you consult with a qualified CPA or tax adviser before initiating any tax-planning strategies.

Can you do a financial plan yourself? I'm sure you can, but will it be right? Most of us want to feel good about what we do, what we accomplish, and how we do things. We all want to succeed. With that in mind, we find that most individuals who do their own planning use either a low inflation rate and/or a high rate of return on their investments. Although the end results might look great, it is generally not sustainable, which means their plan might fail before they die.

Now that we've discussed what a plan entails, the question remains: How do you choose a financial adviser? Generally, the best way is to get referrals from those you know and trust.

Many people hold themselves out as financial advisers, but they are not all the same. There are commission-based advisers, who might include stockbrokers and insurance agents. Their solution to your plan is based on selling you financial products such as annuities, insurance, and mutual funds. They receive a commission on what they sell. Since a majority of their income is based on what they sell, there might be a conflict of interest.

I recommend choosing a fee-based adviser, who acts in a fiduciary capacity in providing investment advice. They primarily make money based on the fee you pay them. A fee-based adviser will charge a flat fee, an hourly fee, or a fee based of the assets they manage, so when you make money, they make money. They will not typically receive a commission on investment products they recommend.

You will want to interview at least two advisers. When choosing an adviser, you need to both like and trust them. This is an intimate relationship. You will share many of your most personal details. Many advisers will offer a one-hour initial consultation at no charge. The purpose of this meeting is to basically kick the tires to see if they can provide the services you need. It gives them an opportunity to explain what they do and how they do it. Before entering into an advisory agreement, the adviser should give you a disclosure brochure, which is information about their firm that is filed with a regulatory body, called the Form ADV 2A and 2B. If they don't have one, I suggest that you leave. They are either not registered properly as an investment adviser, or are not meeting the appropriate regulatory disclosure requirements. If the firm manages more than $100 million, it will be regulated by the Securities and Exchange Commission (SEC). If it manages less than $100 million, it is regulated by the state in which it operates.

Once you have the referral and you have met with the adviser, your homework is not done. You want to check with the regulatory bodies to see if the adviser is registered properly and if there have been any complaints against the adviser. You want to check with FINRA (Financial Industry Regulatory Authority) at https://brokercheck.finra.org or the SEC at https://www.adviserinfo.sec.gov. Simply type in the firm or individual adviser name, and their information should appear.

Now that you have made the commitment to solidify your financial future, grab your book, chair and favorite beverage, and head for the beach. Don't forget the sunscreen.

Fred Dunbar, CLU, ChFC, RFC, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you "down the shore" at 6606 Central Avenue N. Sea Isle City, NJ. 08243.