Keys to Financial Planning: Managing Assets and Liabilities

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A Financial Plan

- Composition of a Sound Financial Plan:
  1. Cash Flow Analysis
  2. Liability Analysis
  3. Asset Management
  4. Risk Management
  5. Insurance Coverage
  6. College Planning
  7. Estate Planning

Typical Relationships

- Many relationships consist of:
  1. A loose plan that lacks structure or a process.
  2. A relationship where the Financial Advisor uses data to make recommendations that derive revenue for the advisor.
  3. An Investment Philosophy that lacks flexibility to meet the Risk Tolerance and Goals of the client. Investment decisions are typically based upon the Financial Advisors personal biases.

Asset Management

Financial Advisors work in one of three ways:
1. Fee-Based Asset Management
2. Commission-Based Asset Management
3. A Hybrid of the two

- Wall Street firms that are publicly traded are shifting to a fee-based platform to even out their revenue streams.
- Independent Financial Advisors have worked this way for some time in order to have their interests tied to that of their clients.
- Washington is most likely going to introduce legislation to remove the differences between the two.

Financial Planning Process

- The Process:
  1. Data Gathering
  2. Analysis / Delivery
  3. Recommendations
  4. Implementation
  5. Regular Review

* Annually this whole process needs to be reexamined and analyzed.

Liability Management

A thorough Financial Plan must include a review of your liabilities today and in the future.

If it doesn't, how do you address managing these liabilities?
In general, most people approach liabilities this way:

1. They have no real plan, they just pay what comes in the mail or spread the money across the liabilities on an ad hoc basis.
2. Most people let emotions get the best of them and avoid logic or simple mathematics when addressing their liabilities.
3. To achieve effective and efficient Liability Management, a systematic approach to debt reduction needs to be developed, periodically reviewed and a adjusted as needed.

Case Studies

- The Newly Weds
- The Pre-Retiree
- The Retiree

Ideas that May Help

- Analyze your Income and Expenses. Stop avoiding the 800 pound Gorilla in the room! Focus on:

  1. What income do you actually bring in?
  2. What do you really spend?
  3. What is absolutely critical to your survival?
  4. What do you want but aren't required to have?

Ideas that May Help

- Develop some goals:

  1. What do you need to spend money on?
  2. What do you want to spend money on?
  3. How do these items fit in to your plan?

Ideas that May Help

- Plan out a Debt Reduction Process:

  1. How can you effectively and efficiently pay down your debts?
  2. Avoid emotion and focus on the mathematics!
  3. Could you delay a purchase to fit within your current cash flow? Or address the purchase through future planning?

Ideas that May Help

- Create an Emergency Fund:

  1. What if something unexpected happens? Like the loss of a job!
  2. Where should you store these emergency funds?

  * A CYA (Cover Your Behind) Account at your local bank that contains 1-3 months of your expenses. Ignore what interest you earn for the protection and access to these funds. Consider a Savings Account or a Money Market Account. FDIC Insurance is a must.

  * A Super CYA account; invest money in an account that attempts to outpace inflation with 9-11 months of expenses. Seek the advice of a qualified Financial Advisor.

Ideas that May Help

- Work with a Financial Advisor that has your best interest in mind when the individual makes recommendations.

  This relationship should provide you an unbiased opinion that lacks the emotion you tie to your decisions.

  If your Financial Plan doesn't account for your Liabilities, consider getting a second opinion.