Wealth Planning Simplified

The best wealth management plan has nothing to do with "outside forces" beyond your control, but rather everything to do with what's most important to you. Instead of feeling overwhelmed by the supposed complexity surrounding financial decisions, a straightforward wealth management plan can bring clarity and peace of mind about which strategies will work best for your particular situation.

Behind the scenes, a wealth management plan does involve number crunching and various strategies to implement. Up front, it should summarize this data into a document that simply represents;

1. Three to four factors that are the most important to you.
2. Some action items that need to get done.
3. A reminder of why you're doing them.

A wealth management plan should never be set in stone. A plan should be used as a guide and adjusted as often as necessary. It is not about getting things "right" but instead about realizing that you will always get things at least a little wrong. Problems are never quite as bad as they seem. While many things can seem out of control, you still can make some changes and set yourself on the right track.

Creating a wealth management plan is one of the best ways of giving yourself something that everyone wants more of, time. Most of our money decisions are driven by a desire to feel happy, safe, and secure. A wealth management plan should not be focused on money alone. There should be just as much emphasis on the following three key non-monetary factors;

1. Time, the calendar and the checkbook never lie. The way we spend our money and our time often says something about what we value.
2. Skills, while compounding and a disciplined savings plan will help your assets grow, human capital will always be your best and greatest investment.
3. Energy, when we think about money only in terms of dollars and cents, we risk depleting our energy due to factors beyond your control.

Before you can plan, you must know why you're planning. Realize the connection between tangible things like the money you make and the intangible things like how great it feels to be there when your daughter scores her first goal. Knowing your values can help eliminate distractions and help you focus on what's most important.

Famous investor George Soros once said, "there is no shame in being wrong, only failing to correct our mistakes." Don't use the mistakes you've made in the past as an excuse to deny yourself what's important. Disappointments often come when people are so focused on outcomes that they miss out on life. This often involves letting go of the following;

1. Expectations about the future, don't turn a guess into an expectation.
2. Outcomes we can't control.
3. Need to measure ourselves against others.

If we want to take control of our finances, we must also take responsibility for our spending and know that nothing will change unless we change our behavior. Wealth planning isn't just about numbers it is a tool for awareness. Its purpose isn't to punish ourselves for spending money, it's to become very aware of how we're spending our money so that we have enough for the things that matter most.

Don't deny yourself the things that help keep you healthy, happy, and sane today. Spending a lot of money on something, even items that you would consider a luxury, doesn't necessarily mean you're making a bad financial decision. It may well be the best decision for you. But only if it's in line with your goals and values.

The more we can make money decisions that support our values the less likely we'll regret those decisions, even if they're expensive choices.

Insider Trading

17... Percentage of a retirement account balance a typical worker who received conflicted advice loses when rolling over a 401(k) to an IRA at age 45 (Council of Economic Advisers).
28... Percentage of U.S. households who have an employer-sponsored retirement plan only. (Investment Company Institute)
52... Percentage of midcareer survey respondents (ages 40 to 52) who said they were having difficulties with retirement planning. (Hearts & Wallets)
55... Percentage of Americans who die without a will or estate plan. (American Bar Association)

State of the Portfolio

I recently heard someone call this stock market the most joyless bull market in stock market history. Since the recession lows set back in early March 2009, the S&P 500 is up nearly 245%. But much like the sea change that occurred in Washington D.C. this past November, not everyone has been a participant in the economic wealth creation that has occurred the past 8 years.

The markets today are as consistently unique as ever. While market valuations depending upon who you ask are neither wildly over or under valued, it does make for an interesting time selecting individual companies to own. More and more, it has been a winner take all mentality with the growth of individual companies. Firms like Google, Facebook, and Amazon to name a few have generated much of the S&P 500's return over the past few years. While these are best in class companies that you would like to own, they now sport some very high valuations within the equity markets which makes them risky to own.

To this end, I have started to look at companies that display more consistent earnings trends which in most cases can reduce their price volatility. These companies may not produce above market returns in the short-term but over the long-term, these companies are usually rewarded as they do not fall as much when downturns occur thus making up for lost ground.

After staying away from international stocks the past few years, I am starting to build positions that can take advantage of the diversity within a portfolio that they can bring. Given that international stocks have greatly underperformed their U.S. counterparts over the past 10 years, these trends typically reverse themselves over time to where the performance of both asset classes begin to realign with each other.

Personalized Investing; What to do About Saving for College

Recently I have been fielding various questions from clients who want to know what they should be doing to save for their kids' college education. While every situation is unique, it often comes down to two key issues;

1. How much do the parents want to contribute? Parents trying to answer this question can result in some tense conversations because each parent may have their own idea on how much to contribute.
2. What capacity do parents have to contribute? While parents might want to contribute to a college savings plan, it can be difficult with other pressing financial priorities such as retirement, health care, and other basic cost of living considerations.

There are several qualified college savings options to choose from but I advise clients to really consider two;

1. 529 Plan - allows for assets to grow tax free when used for qualifying college expenses.
2. IRAs – most people do not realize that they can utilize this qualified retirement plan to use for qualifying college expenses. While there are no penalties to pay, you would pay tax on your earnings but there are ways to minimize your tax exposure when utilizing this strategy.

When pressed to deliver a specific number on how much to save, I always tell clients something is better than nothing especially the earlier that you start just like saving for any financial based goal. The diagram below shows just how powerful the science of compounding can have on your assets.

Various Approaches to Paying for College

Projected $135,163 four-year college costs

	Funding Approach			
	Pay As Child Attends	**Student Loan**	**Investment Savings Account**	**529 Savings Account**
Sum of 18 years of annual savings saved at 9% or after-tax at 6.3% (9% x (1 – 0.30 combined tax rate)			**$76,518** ($4,251 saved each year at an after-tax rate of 6.3%; $58,645 paid from investment earnings)	**$58,914** ($3,273 saved each year at a pre-tax rate of 9%; $76,249 paid from qualified 529 plan distributions)
Out-of-pocket tuition payments	**$135,163**	**$57,303** plus $80,000 in student loan borrowings (50% direct loan, 50% parent loan), less $2,140 fees (1.069% fee for direct loans, and 4.276% fee for parent loans) *	$0	$0
Tax Breaks				
Four years of $2,500 American opportunity tax credits	**($10,000)**	**($10,000)**	**($10,000)**	
Federal and state income tax savings on student loan interest payments of $2,500 per year at a 30% combined rate		**($7,500)**		
State income tax savings on section 529 plan contribu-tions at 5%				**($2,946)**
Total out-of-pocket cost of college	**$125,163**	**$156,963**	**$66,518**	**$55,968**

* $117,160 is the sum of 10 years of student loan payments to repay the $80,000 loan plus $10,070 of accrued interest during the four years of college (3.76% interest rate on direct loans, and 6.31% on parent loans).

Source: Journal of Financial Planning: Recent 529 Plan Changes Add to Their Advantages

Additionally, I tell clients to take a balanced approach and consider what part saving for college should be as part of your complete wealth management plan. I use the analogy that when traveling via airplane in the event of an emergency, always put the oxygen mask on you first and then your child. Your child can always get a loan for college, but you can’t get a loan for retirement.

For questions about any wealth and asset management topics, do not hesitate to contact me to find out what options may be best for your own personal situation. Financial relationships are built upon trust. Your continued support in having conversations and making recommendations to family, friends, and co-workers regarding your relationship with me at TAMMA is always greatly appreciated and welcomed.

Paul Fenner, CFP®, ChFC
President
Registered Investment Advisor