Charting 2020 VISION

There are many misconceptions about the term “financial plan.” At some point in our lives, we may have purchased a life insurance policy after some discussion with an insurance agent. We may have discussed with a stock broker our needs to invest extra savings. In fact, we may have gone to a financial adviser who provided a 40-page document labeled “Your Financial Plan.”

But these aren’t the only parts of financial planning. Financial planning is a process, a living, breathing service that integrates both short- and long-term financial goals such as funding a college education for our kids, buying a home or a second home, planning for a comfortable retirement, succession planning for a business, and legacy and estate planning. Along life’s ever changing path, financial planning also provides mitigation of risks from liability and property damage and seeks to provide tax efficiency. Financial planning’s primary function is to integrate your financial life along its many and varied channels, and respond to life changes along the way.

As business owners know, a solid business plan is critical to the long-term viability of a business, and that same attention should be given to your personal financial security. Now that you have your business plan in place, it’s time to focus on your, your family’s and your business’ financial security.

While it might sound like something only the very rich need, everyone can benefit from financial planning. No matter how much income or savings you have, there is always a benefit from having a clear plan for your finances.

Think about this. If you were building a $1 million home, would you need an architectural plan? Of course. What if you were building a $100,000 home? Do you still need a plan? Again, the answer is yes.

We all need a financial plan to help us achieve our goals in both our business and personal lives. Financial planning takes the guesswork out of managing your finances and helps you understand the implications of each decision you make. And because we all have different goals, it’s important to have a unique plan that works for you and your financial situation, both now and in the future.

A holistic financial plan not only involves investing money and building wealth but also optimizing credit and tax obligations, everyday spending, family planning, setting up your home, saving for your children’s education fund and saving for retirement, as well as protecting yourself and your family with suitable insurance policies and arranging your estate. Business succession planning is also an important component of financial planning. All of these facets of a financial plan are interconnected.

As business operators, you are well acquainted with successfully creating a roadmap for success – your business plan. In developing your business plan, you have assessed available resources, planned for growth and tracked your progress. Personal financial planning requires similar thinking and advice.

How to Pick a Financial Planner

Finding the right financial planner/adviser takes a little time and legwork. Good planners will be fiduciaries, meaning they are legally obligated to act in a client's best interests. Their financial advice is geared for your benefit rather than their own.

Several reputable national organizations (not affiliated with our firm) require members to earn credentials by passing exams and also require continuing education. Each offers a searchable database with state-by-state contact information: National Association of Personal Financial Advisors *(napfa.org)*, Financial Planning Association *(plannersearch.org)* and Certified Financial Planner Board of Standards *(cfp.net)*.

It's important for people to interview at least three planners to pick the one who's right for you. Compare credentials, look at how they are paid (fee-based, commission or

your needs, assessing your tolerance for risk and understanding what impacts your current financial picture, such as income, expenses and savings. Focusing too many resources in one area may put your overall financial success at risk.

Remember, time and energy are two of your most important resources and you need to direct them to succeed both in your business and personal financial spheres.

2. Collect Your Financial Information

Inventory your current assets, including savings and investments. Determine your current and long-term liabilities.

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No matter how much income or savings you have, there's always a benefit to having a clear plan for your finances. Tips on meeting with a financial planner for your business and personal lives.

BY VICTORIA FILLET

both), do a background check, check for any disciplinary actions and, of course, ask the tough questions. The CFP Board of Standards provides the following six steps to prepare you for meeting with a financial professional.

Before Meeting With the Financial Planner

1. Identify Your Goals

It's important to know what you are planning for, and remember, managing day-to-day expenses should always come first. Then consider the short- and long-term goals for you and your family. The key is to set realistic goals and then prioritize.

Your personal financial planner will create a roadmap to help you understand your financial goals and how to achieve them. This means identifying and prioritizing

Assets can be classified into three distinct categories:

a.) Liquid Assets: Liquid assets are those things you own that can easily be sold or turned into cash without losing value. These include cash and checking, money market and savings accounts. Some people include certificates of deposit (CDs) in this category, but the problem is that most of them charge an early withdrawal fee, causing your investment to lose a little value.

b.) Large Assets: These include such things as houses, cars, boats, artwork and furniture. When creating a personal balance sheet, make sure to use the market value of the items. If it's difficult to find a market value, use recent sale prices of similar items.

c.) Investments: These include bonds, stocks, CDs and mutual funds in both qualified retirement accounts and your personal investment account. All real estate property owned should be included. You should record investments at their current market values as well.

Liabilities are merely what you owe. Liabilities include current bills, payments still owed on assets like cars and houses, credit card balances, student loans and other loans.

Insurance covers unexpected incidents or emergencies in life, such as accidents, illness and death, all of which can deplete your savings and erode your assets. Having adequate insurance coverage for these eventualities should be a key component of your financial planning. A good plan will make sure you have adequate coverage for health, life and property.

3. Figure Out Where You Stand

Do a cash flow analysis to see how much money comes in and how much goes out. Is there any left over? If so, is it being used wisely?

Think about your expenses in three categories: fixed (must be paid every month), variable (we need to spend money on these, but are we spending too much?) and discretionary (can we live without these expenses and put some of that money toward our goals?).

The purpose of determining your cash inflow and outflow is to find your net cash flow, which is simply the result of subtracting your outflow from your inflow. A positive net cash flow means you've earned more than you've spent and have some money left over from that period. On the other hand, a negative net cash flow indicates that you spent more money than you brought in. If you currently have a negative cash flow or want to increase your positive net cash flow, you must assess current spending habits and adjust accordingly. This is a very important step to achieving financial success.

4. Develop Your Plan

This is where you put together the timeline for your goals and determine exactly how you will achieve them. This step's keyword is "develop" because financial planning requires devising alternative solutions achievable for each individual. With so many different variables to consider, your plan needs to evolve with your needs but remain within your capabilities and risk tolerance.

Creating a retirement plan is an important aspect of your financial plan, as it will help you determine how much money you'll need to retire comfortably and manage your wealth to cover expenses in later years. Investing also plays an important role in the development of your retirement plan as a way of helping you achieve financial security in retirement.

You can allocate remaining cash flow for investing after you deduct necessary spending and savings from your income. A well-planned portfolio can help you ride out the ups and downs of capital markets and adjust your risk exposure to achieve long-term growth within your risk tolerance level. Investing is a process to maintain a portfolio that suits your risk appetite, with a mix of investment products to keep your portfolio afloat in any economic climate. That is why evaluating your risk tolerance is an important part of investing. Your risk tolerance changes over time, and your holdings must adapt.

Remember, investing is for long-term goals that are more than five years away. Savings is for shorter-term goals – less than five years – since these assets must be kept liquid.

A note on emergency funds: Everyone needs an emergency fund, which consists of the cash or cash-equivalent assets held specifically for unexpected expenses. The rule of thumb is that your emergency fund should equal approximately six months' of living expenses. This is yet another reason to do a cash flow analysis – so you know how much money you'll need to cover expenses in a cash flow emergency.

5. Put Your Plan to Work

As simple as it may sound, implementation is the most challenging step in financial planning for many people because although they have their plan developed, it takes strong discipline, commitment and desire to put it into action.

Saving and investing will be an important part of your plan going forward. The point is to make your financial strategies achievable and to consider slowly moving up to desired savings rates rather than jumping into something that may be challenging if implemented too fast for your comfort level and budget. Implementing a personal financial plan requires discipline in achieving the desired savings and investment goals, but too much stringency may make adherence to the plan difficult and reduces the chances of ultimate goal achievement.

Successful investors will tell you that just getting started is the most important aspect of success.

Make sure to identify your individual risk tolerance. Risk is the potential threat that may impact the expected outcome of your investments. Investments that deliver potentially higher returns are usually accompanied by higher risk. Are you willing to accept potential losses in exchange for greater potential returns?

You cannot totally avoid risks; in order to achieve returns, portfolios need to accept some risk. However, you can control your exposure to risks to an acceptable level through diversification across various asset classes such as stocks and bonds. Make sure you understand exactly what you are investing in and recognize the potential risks.

The purpose of tax planning is to ensure tax efficiency. Through tax planning, all elements of the financial plan work together in the most tax-efficient manner. An appropriate qualified retirement plan can often be used to reduce ongoing income taxes, as well as provide deferred taxation treatment on investment income. Careful attention to tax law changes can be used to effectively avoid negative surprises in April and afford opportunities to structure your finances. Reduction of tax liability and maximizing the ability to contribute to retirement plans are crucial for success.

Estate planning is an important component of any financial plan as well. Preparing for the worst may be unpleasant to some, but it is an essential part of long-term financial planning. In the event of serious illness, disability or death, it's important that your finances are in order so your family can be better prepared to meet life's challenges and emergencies. With proper planning, wealth transfers can be accomplished with minimal tax liabilities. One important point in estate planning is establishing the care of minors if something happens to the parents; this must be agreed to and put in writing to be effective and provide for the right care of your children.

6. Review Your Plan Regularly

After formulating a financial plan, exercising strict discipline in following and adapting the plan is critical. Review existing cash flow and your investment portfolio from time to time to make sure they still fit your needs. In meeting your financial goals, it is considered best practice to review the performance of your portfolio regularly and rebalance your investments when necessary. This can help avoid keeping a portfolio that may over-concentrate on certain asset classes.

Financial planning is a dynamic and continuous process. You should adjust your plan when there are significant changes in market conditions or when you enter a different life stage. You should make adjustments based on your resources, needs and situation to ensure that your plan is still in line with your financial goals.

Life happens, and you will need to make adjustments depending on what is occurring. Life changes, laws change and so will your financial plan. That's why it's called financial *planning!*

Think of the things that can change in your life – marriage, divorce, the birth of children, career changes – and what can change in your business – expansion, employee benefits, compensation, call volume and more. These events all require new perspectives on life and finances. Now think of financial changes beyond your control, such as tax laws, interest rates, inflation rates, stock market fluctuations and economic recessions. All of these factors must be reviewed regularly and mid-course corrections made, if needed.

Do You Need a Financial Adviser?

Choosing whether or not to use a professional financial planner depends on your particular circumstances. If you have the time and interest to conduct your own research, along with a reasonable understanding of financial markets and products, you may choose to manage your finances on your own and create your own financial plan. If you don't have the time or interest, have complicated financial affairs or significant financial decisions to make, it's best to work with an adviser.

The dynamics of financial planning play a role in everybody's personal and professional lives. Having the comfort of a strong financial plan will provide the guidelines necessary to achieve financial success. ≡

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