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A Quiet Revolution Has Altered Financial Planning

Goal-based planning is quietly changing the way Americans plan financially. While business coverage in the media focuses on hot stocks, corporate scandals, and movie box office numbers, this is a major story that can change your financial outlook. The difference between a goal-based financial plan and a traditional cash-flow-based plan is in the level of detail. Cash-flow plans are far more detailed and the details can get in the way.

With a cash-flow plan, based on your current income, spending habits, savings rate, tax bracket, and portfolio, software is used to make projections about your financial future over the next 10, 20, or 30 years, or even longer. Each investment—every bond, every stock—is subject to a forecast breaking down the dividends, interest, and capital appreciation it is expected to provide over the period. Each expense must similarly be projected, year by year, from your mortgage to what you spend on food. Gathering all these numbers poses a problem. Many people simply never do it. Their financial plan ends before it ever begins.

Apart from this human foible, a bigger problem with cash-flow based plans is that the projections rely on so many variables. Forecasting your rate of return on an individual security or what you will spend on gasoline during the next 30 years is too iffy. If your return forecast is off by a percentage point or two in either direction, your plan can be well off the mark. In other words, while intuitively you may believe that more data makes a financial plan more reliable, the opposite may actually be true. Limiting the variables may indeed provide a better view of the future.

That's the approach of goal-based planning. With a goal-based financial plan, you essentially admit that predicting your income and expenses with accuracy is too difficult. Instead of relying on projections of your income and expenses, goal-based plans focus on how much you are saving now and the return you expect to earn.

In contrast to traditional financial planning, which calculates how much you could save, given your current income, expenses, and taxes, goal-based planning starts with how much you are saving. Instead of estimating your retirement income by requiring you to forecast returns on individual securities and accounts over the next 10, 20, or 30 years, a goal-based plan estimates how much of a nest egg you'll accumulate by making a single assumption about the return on your total portfolio. Instead of requiring a budget forecast based on dozens of items, your expenses are estimated based on your major goals in life. The focus on your goals makes a plan more meaningful to most people.

Bob Curtis, the founder of Pie

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Longevity: The Impact Of Stress And Financial Peace Of Mind

When you consider the best ways to extend your life, you probably think of good physical health habits—diet, exercise, medical screening. But moves that keep you financially healthy also help, relieving stress that can lead to disease and a premature death. And good financial planning puts you in position to enjoy all those extra years.

Getting older is inherently stressful. Major lifestyle changes such as retiring, watching kids leave the nest, and downsizing to a smaller residence inevitably generate anxiety. If you're also taking financial responsibility for aging parents or for adult children who need help getting started, it only adds to the psychological toll.

Getting your financial house in order can help lighten the load. Knowing your retirement account is well funded, say, or that you have established a trust to take care of children from your first marriage, can help ease your mind. But if others around you are concerned about the future, their anxiety will inevitably affect you, too. So sit down now with your spouse, your children, and your parents to discuss what's ahead.

And talk with us. It's our job to help you achieve financial peace of mind, and the more we know about your goals and your stress, the better we can work with you to relieve your anxiety. Getting comfortable with your financial future just might give you more of it to enjoy.

Sincerely,

Victoria Marrone
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Chief Executive Officer

How Can You Value Artwork You Own?

When you buy a 10-year Treasury bond or 5,000 shares of common stock, the price you pay is determined by supply and demand in a public market. And while that doesn't guarantee it's a good price from an investment standpoint, at least you know there are other people at that moment who are willing to pony up a similar amount. That's often not the case when buying or selling paintings, sculpture, or other fine art. Art changes hands at galleries, auctions, and in private sales between individuals, and someone may hold a piece for a decade or longer, making it difficult to determine what it might be worth today. And while auctions, reflecting demand in a competitive, public venue, may deliver the optimal price for a piece, it's essential for both sellers and prospective buyers to have some idea of the value of the work being sold. The seller has to determine where to start the bidding, and bidders need to know where to stop.

One solution, suggests professor Michael Moses of New York University's Stern School of Business, is to apply real estate valuation techniques to art. Moses developed the MEI Moses All Art Index, which uses auction sales information to track the ups and downs of art investments. Art collectors and investors can use the benchmark's underlying database, available to subscribers at artasanasset.com, to find recent prices for works comparable to pieces they're considering. The database lets you compare art according to type, size,

artist, and previous sale prices.

This approach ought to be familiar to any homeowner. When you buy or sell a house, you and your agent use recent sales of comparable properties to come up with a reasonable price to ask or offer. These "comps" look at square footage, location, numbers of rooms and bathrooms, and other factors. With art, says Moses, the trick is to find truly comparable works, and the more similarities, the better. If you can locate a recently sold painting, for example, that is of a similar size and was done by the same artist in the same style as a work you want to buy or sell, you'll have a good idea of what might be a reasonable price.

Moses notes that off-category and smaller pieces tend to fetch lower prices. So if you come across a small portrait by an artist who normally paints large landscapes, the portrait may be considerably less valuable than one of the landscapes would be. To determine how much lower the price should be, look for other smaller portraits by this or a similar artist.

Because prices from much earlier sales may not say much about current value, artasanasset.com includes a "market to market" feature that helps you gauge how much a piece may have appreciated. But Moses cautions art buyers and sellers not to consider art comps as the last word on a work's value. Instead, they provide a starting point for an auction sale or for negotiating with a gallery or private collector. The ultimate price depends on demand and perceived value. Like beauty, a work of art's value is in the eye of the beholder. ●

With Stock Market Indexes Soaring To New All-Time Highs, An

For stock investors, the world has been looking pretty bright. With several market benchmarks at or near all-time highs, making money looks easy, worries about risk seem remote, and having a written investment policy statement (IPS) may feel like a waste of time and paper. But this is exactly when an IPS is most valuable.

An investment policy statement commits to writing the details of your financial situation—what you want to accomplish, a plan for achieving it, and how much risk you're willing to take to get there. It can save you from your own worst instincts, helping you resist the temptation to reach too far when times are good or panic when the market plunges. Suppose, for example, that the Nasdaq Composite has had a great run, skyrocketing 15% in the most recent quarter. With your portfolio ahead just 5% during the period, you might feel frustrated, and tempted to grab some of Nasdaq's big gainers to try to catch up. A glance at your IPS, however, would remind you why that's a bad idea. The diversification strategy you've committed to is designed to keep your portfolio on a relatively even keel, with judicious allocations to bonds and dividend-paying blue chip stocks. It has the potential to produce steady gains over the long haul to fund your financial goals. And though it may not take off during a market surge, it's also less likely to go into free fall when the investment climate gets stormy.

While there's no hard-and-fast format for an investment policy statement, most combine the same basic component parts. First, there's usually an executive summary that lays out where you are now in your investing life. It describes your current portfolio and may include your target asset allocation, how much new money you'll invest each

Coordinating A Couple's Retirement Plans

Back in the days of Ozzie and Harriet, retirement decisions were simple: the husband's retirement plans were the couple's retirement plans. Today, you and your spouse may both work, and retirement timing and coordination is a challenge. While leaving the work force at more or less the same time may seem ideal, issues of age, health, job satisfaction, and pension and other employment benefits can make that tough to pull off.

For most couples, joint retirement decisions mean weighing the benefits of having more leisure time to spend with each other against the cost of one or both of you leaving work. That can be difficult to gauge, particularly when spouses are different ages, work for different employers, and face conflicting retirement incentives. Richard W. Johnson, a researcher for the Center for Retirement Research at Boston College, cites the example of a couple in which the husband has a company-sponsored retirement plan that lets him retire at age 62. His wife is three years younger, and the retirement age in her employer's plan is 65. For the husband, retiring at 62 may be financially beneficial. Yet by the same token, if the wife waits until her financially optimum retirement date, she could end up working six years longer than

her husband, giving away a substantial portion of the time they could have spent together during retirement.

Health insurance coverage may be another sticking point, particularly when one or both spouses is thinking about retiring before age 65, when Medicare coverage begins. For example, consider what would happen if our couple went ahead and retired when he was 62 and she was 59. Assuming both had health coverage at work but neither had retiree health benefits—an increasingly common situation, according to Johnson—for three years, until the husband reached Medicare age, they would both need to buy private, non-group insurance. That tends to be prohibitively expensive, and she would continue to need coverage for an additional three years after her husband qualified for Medicare. They would be much better off financially if she kept her job and benefits.

There are also questions of job satisfaction and health. Many people today choose to keep working past normal retirement age, at least in part because they enjoy what they do. Yet when both spouses have jobs, one may love going to work every day while the other is counting the days until retirement. Meanwhile, health problems may force the issue, pushing a spouse into retirement regardless of financial consequences.

Still, despite all of these issues, in about half of all couples, both spouses manage to retire within two years of each other, according to Johnson's calculations, and for two-thirds of couples, it happens within four years. Give us a call if you and your spouse would like to review your retirement plans and make sure you're on track to retire on your own terms. ●

Investment Policy Statement Is Key

month or year, and what index benchmarks are used to gauge your progress. The executive summary also considers risk, often in terms of how much of a loss you could tolerate during specified time periods.

Next, your IPS may detail your **investment objectives**—for example, that you and your spouse plan to retire in 15 years, and you'll need income of $200,000 a year, inflation adjusted, for three decades. Your **investment philosophy** sets out your investing rules to live by. How do you feel about risk, diversification, frequency of trading, investment costs, and taxes? Answering these questions in a formal IPS provides a philosophical underpinning for specific **investment selection criteria** that translate your beliefs into action. Finally, the IPS may outline **monitoring procedures** for gauging your progress.

If you don't already have an investment policy statement, please let us help you create one. Simply going through the process can be invaluable; answering our questions about your goals and risk tolerance may focus your thinking in a new, beneficial way. And with your IPS in hand, we'll know how to serve your needs whatever the market climate. ●

The Ethical Will: How To Leave Your Wisdom Behind

You are far more than the sum of your possessions. Yet when it comes to bequests, your last will and testament probably deals just with concrete assets. What happens to the intangibles: the wisdom, values, experiences, and stories you've accumulated over the years?

Enter the ethical will. In its simplest form, an ethical will sets forth the moral and spiritual "capital" you may want to leave to the next generation. While not a legal document, this message to your heirs is often recommended by attorneys and financial advisors as a tool for establishing a family legacy built on pillars you hold dear.

Almost anything can go into an ethical will. Some people pass along the life lessons they've learned over the years. Others articulate specific moral values, describe mistakes they've learned from, fill in the context surrounding major events of their lives, articulate spiritual beliefs, recommend meaningful books, share funny experiences, and express their love. Some even ask or bestow forgiveness. Though in many cases, those for whom ethical wills are intended—family, friends, even organizations—have heard these insights before, this sets them down in a tangible, immutable form.

With today's technology, creators of ethical wills are no longer confined to acid-free paper and fade-resistant ink (both are recommended if you do use pen and paper). You can not only record your wishes on audiotape, but create an entire DVD, complete with video clips, photographs, navigation, and music. This allows loved ones to read your words and pick up your inflections, adding shades of meaning to your message.

The benefits, however, are not just for those left behind. Many of those who draw up an ethical will find it gives them a deeper, clearer understanding of their own value systems or life stories. That's an argument for creating one well before the end of life. A couple could use this tool to learn more about each other before the wedding, or as they start a family. Those in midlife or about to retire could use an ethical will to clarify the direction for the next stage of their life.

Families in business together might also benefit from creating ethical wills. All too often, after the death of the parent who ran the company, heirs will bicker about a business's future direction, frequently invoking "what Mom and Dad would want." An ethical will, thoughtfully set forth by the head of the family, can give descendants a shared framework and clarify the business's original values.

There's no fee or formal process to create an ethical will. Just carefully reflect on what you want to say to those dear to you, and then create your will in any form or format that appeals to you. This simple, straightforward act could have a profound impact on generations to come.

To find out more about why and how to make an ethical will—including examples for each life stage—visit www.ethicalwill.com. ●

A Quiet Revolution

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Technology, which makes goal-based planning software for financial professionals, cites the example of John and Ann, a couple who are both 59 years old and want to retire within four or five years. Whereas a traditional approach to planning might determine that the couple needs a retirement income of $124,000 a year to afford everything they want and that the couple's savings can fund only about three-quarters of that amount, goal-based planning separates out John and Ann's goals and lists them in order of importance. It determines, for example, that they need $72,000 a year to fund their basic living expenses. It estimates that they may be able to afford additional goals—$20,000 a year for travel until age 78; $10,000 annual gifts to their children for 10 years; a new $30,000 luxury car every four years; a $20,000 second car every six years; and additional outlays for dining, entertainment, and other niceties.

Those goals aren't all of equal importance to Ann and John. Obviously, meeting basic living expenses is a must; next, in order of importance, come the luxury car, travel, the second car, the children's gifts, and extra living expenses. It turns out John and Ann can retire at age 63 and expect to fund almost all of their goals, though they'll likely have to pinch pennies on entertainment.

Approaching financial planning this way has several advantages. For one thing, it's hopeful. Instead of simply saying you will fall short of your goals and run out of money during retirement, the goal-based approach tells you what you can afford. It allows you to choose which goals are most important to you and design strategies to improve your situation. For example, retiring two years later might allow you to fund all of your goals, and switching to a riskier portfolio could be worth considering as well.

Creating a goal-based plan with fewer data inputs makes planning easier. Plans can easily be updated, making them more likely to be reviewed every year. Instead of the 75-page reports spawned by cash-flow-based plans, which often end up collecting dust, you receive a succinct report showing your progress toward meeting your goals annually. Our firm uses goal-based planning because we believe it serves you better. To find out more, please don't hesitate to call us. ●

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