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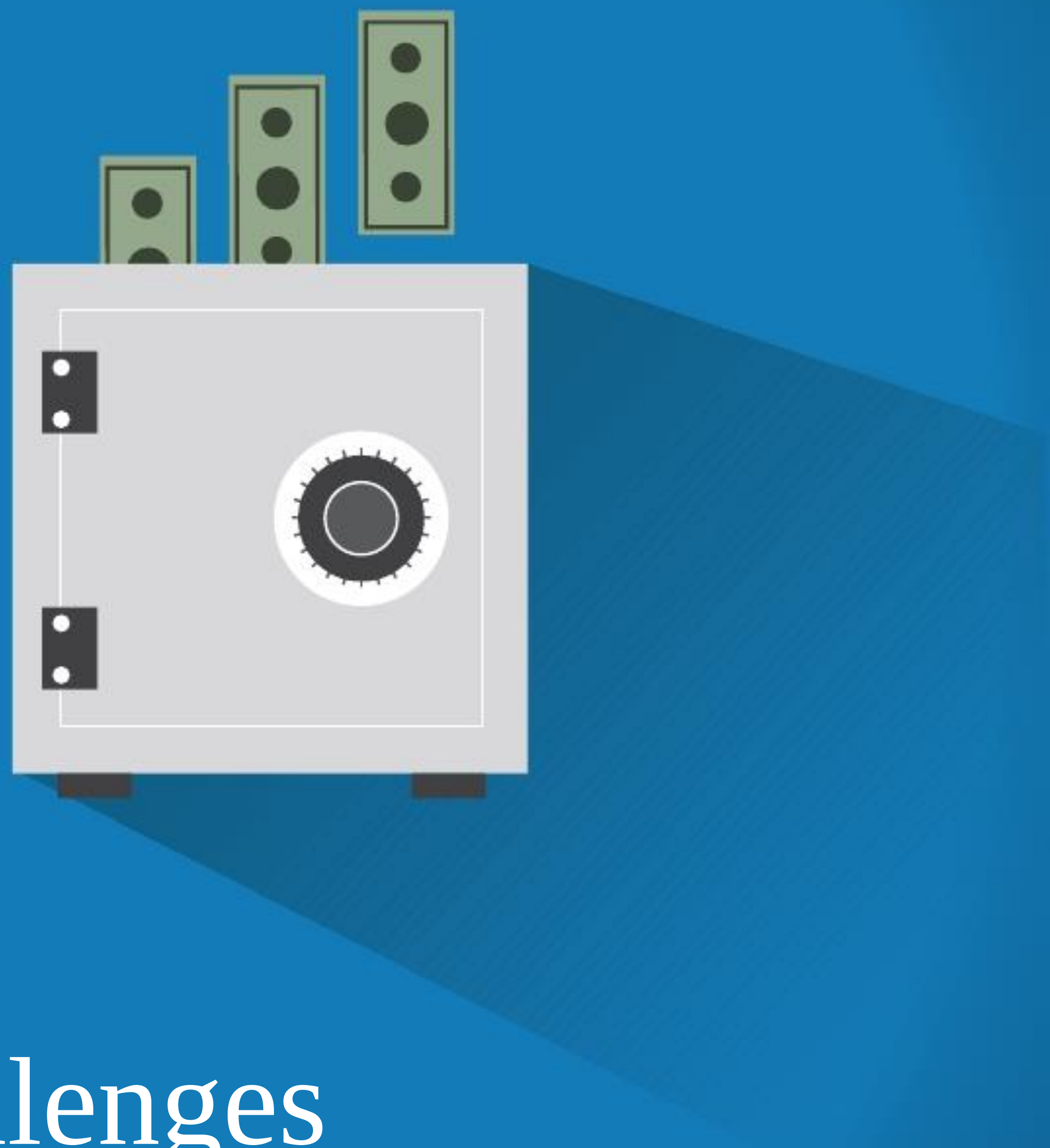

The Challenges in Achieving Financial Security

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Key Takeaways:

- Longer life spans, shrinking pensions and an ever-expanding tax code have made the quest for financial security more challenging than ever.
- Without clearly defined goals people will lack the confidence and motivation to adhere to a long-term strategy
- Financial planning is the process of assessing your current financial situation in light of your most important financial goals to determine the most efficient and effective way of allocating your resources towards achieving them.

It wasn't long ago that achieving financial security was a relatively minor challenge for many people and that financial planning was thought of as a discipline that only applied to the very wealthy. Most people didn't feel the need to plan, and, frankly, most financial advisors felt the same way. If you consider the fact that, just a few decades ago, the average life expectancy was just 74 years, few people were concerned with making their retirement income last a lifetime. And, back then, the majority of retirees were supported by the three-legged stool of Social Security, personal savings and guaranteed pensions.

But much has changed in just the last 15 years that has extended the need for financial planning to anyone with hopes of achieving financial security. Consider how our financial world has evolved:

- Life expectancy took a huge leap in the last twenty years with average life spans increasing to 85 years and an increasing number of people living into their 90's. Add to that the continued extinction of guaranteed pension plans and suddenly people are concerned about outliving their resources.

- Health care costs have more than doubled over the last few decades threatening to consume as much as one third of a retiree's resources.

- The increased volatility of the stock market has become, to many people, a sadistic roller coaster ride they would rather not have to stomach.

- The proliferation of investment products and providers over the last couple of decades has created too many choices which have led to confusion, and, ultimately, investment paralysis.

- Current and future generations will spend an additional 15 years on average caring for family members – either a child with financial problems or an aging parent, or both.

- College tuition continues to climb out of the reach of many American families.

- Over the last twenty years, the Internal Revenue Code has become, arguably, one of the most complex in the world.

Of course, these developments as well as the ongoing evolution of the financial world affect all of us. The paradox of wealth accumulation is that the better you do, the more complicated your needs become. And, there is an additional layer of complexity in solving for longer life spans, higher health costs, less earnings, smaller pensions, and fewer accumulated assets.

Our Biggest Challenges are Often Self-Inflicted

In many respects, people can be their own worst enemies in their quest for financial security. When you consider that our lives are nothing more than a culmination of the decisions we make each day, if we tend to make more bad decisions than good decisions, or worse, if we can't make decisions at all, it's should be no surprise when financial security remains elusive.

When it comes to finances and investment decisions, many people are not wired to be able to make decisions dispassionately, without emotions clouding their reasoning; and that's when people tend to make the most behavioral mistakes with their financial decisions. Understanding these behavioral mistakes and how to avoid them is crucial to achieving financial security.

How many of these behavioral mistakes have you made?

Impulse purchases – We're all prone to an impulse purchase now and then, but for some people, it's more of pattern than a one-off indulgence; and when these purchases add to debt, the damage is compounded.

Using bonuses or salary increases to add to lifestyle and not savings – When people lack a goal, or a vision or a purpose, they are more likely to want more lifestyle than savings.

Trying to pick the winners – When investing, do you spend your time looking for the top performing mutual funds in hopes of jumping on the train to riches? Very rarely does a top performing mutual fund repeat its winning performance.

Following the herd – In investing, many people have a fear of being left behind, which is why the human tendency is to follow the herd in times of stock market exuberance or panic. Almost invariably, this leads to buying near the top of the market or selling near the bottom.

Procrastinating – Procrastination, typically brought on by the inability to make a decision, is one of the primary causes of financial distress.

Trying to avoid risk – Many of the behavioral mistakes people make is a result of their lack of understanding of the role risk plays in investing. Without risk, there are no returns; and, without returns, achieving financial security is almost impossible. If you think you are avoiding risk by avoiding the stock market, you are actually inviting other, more corrosive forms of risk, such as inflation risk, longevity risk, and interest rate risk.

These common, costly behavioral mistakes typically result from a lack of planning, with no clear vision or purpose to guide decisions. Instead, decisions become reflexive responses to emotions that are allowed to dominate our thought process in the absence of the discipline, logic and reasoning that a well-conceived plan can engender.

Studies indicate that people who have well-defined goals, a clear purpose in life, and a thoughtfully prepared plan in place, are better able to check their emotions and muster the necessary discipline to follow their plan. In doing so, they are more likely to avoid many of the behavioral mistakes that can cost them their financial security.

The Importance of Financial Goals

Financial goals are life's destinations, whether it's where you're headed today or twenty years from now. But there is a significant difference between a clearly defined goal with a plan to achieve it, and a fuzzy vision of what you'd like to have happen. Goals that are perceived as not achievable aren't really goals at all. They become pipe dreams or they whither into hopeful aspirations. Or, if a goal isn't clearly defined with a real intrinsic value attached to it, it won't spark the inspiration needed to pursue it. If we can't visualize the end result, or if the end result doesn't hold real value for us, we are less motivated to act. Nothing happens.

Generally, people without clearly defined goals, or who view the future with uncertainty, will lack the confidence necessary to adhere to a long-term strategy. Investment plans based on the hope that past performance will prevail in the future don't engender confidence, nor does the notion of planning toward the accumulation of a capital need using arbitrary or out-dated rules and assumptions. Effective goal setting is not a science, nor is it particularly difficult. And while, there is no one best way to set goals, it does require a certain frame of mind in order to give the process the perspective it needs. Goals are set to be met. Ascribing any less importance to it, renders the whole exercise a waste of time and discourages future efforts. So, it is important that your goal setting process works the first time around.

Time is of the essence with goal setting. The only resource available to us, over which we have some element of control, is time. However, it is a wasting resource if it is not optimally utilized. Each day that passes, without some contribution of money, either in savings or interest, the cost of your financial goals increases. As time marches on, the obstacles to achieving goals of any time horizon become increasingly insurmountable.

These are the obstacles we all face in trying to achieve our financial goals:

Diminishing Time Value

Most people have heard of the financial axiom, "the time value of money" that describes how the growth of money is primarily a function of the amount of time it is given to work. The less time that money has to work, the more it will cost to attain the goal which is also defined as "the cost of waiting".

Risk as a Replacement for Time

The more time money has to work, the less it needs to grow. Given enough time, money will let compounding interest work its exponential magic thereby eliminating the need for higher returns and the greater risks associated with them. When it is necessary to assume greater risks in order to overcome the loss of time, financial goals can be jeopardized.

Inflation

Inflation is one of time's worst enemies. The longer the time horizon, the longer inflation can eat away at the true value of money. At a normal inflation rate of 3%, the value of money is cut in half after 23 years. The cost of financial goals must incorporate the cost of inflation when calculating how much savings will be required to achieve them.

Taxes

Taxes are the one certainty of life that can obstruct your progress towards reaching your goals. The good news is that, with the proper planning, and the use of the right tools, they can be minimized to reduce their impact.

Life

Yes, life happens, and very rarely in the way we anticipate, which is why financial goals must be defined, calculated, measured and reviewed frequently so that the necessary adjustments can be made to keep you on the right road when life throws you a curve.

Ultimately, your goals and objectives become your investment benchmarks, an absolute measure of your investment strategy's performance. This allows you make investment decisions based on where you are in relation to your objectives rather than on market returns which are beyond your control. More importantly, it will shield you from the irrational behavior of the herd which is often driven by euphoria or panic.

What exactly is Financial Planning

Financial planning is the process of assessing your current financial situation in light of your most important financial goals to determine the most efficient and effective way of allocating your resources towards achieving them. The plan is implemented through coordinated strategies involving investments, tax reduction, risk management, retirement programs, and estate preservation, and then monitored to ensure that it is on track. The ultimate benefit to you is greater control over your financial future so you can focus on the here and now.

All of us have certain things in life we want to accomplish and many of them require financial resources. These are called financial goals. Living a secure and enjoyable retirement is a goal shared by most people. In addition to that, parents want to be able to provide a college education for their children, buy a bigger house, or expand their business, and while working towards all of those, they want to ensure the financial security of their loved ones. These all become intricately linked pieces of the financial puzzle.

A financial plan is about carefully forging those pieces and fitting them in their proper place so that they work effectively together towards your vision. If a piece is missing or doesn't fit quite right, it could skew all of the other pieces. For high net worth or highly compensated people, there are several additional pieces that need to be able to fit the financial puzzle including risk management, taxation, business continuation, and estate planning. Because of their impact on the total financial puzzle, it is critical to have a well-conceived, integrated plan.

Conclusion

No one plans to fail, but until deliberate steps are taken to clearly define your goals, assess your current financial situation, and implement actionable strategies towards achieving your goals, you will have failed to plan. And, that can be devastating at a time when the stakes have never been higher.

We are living in an increasingly complex era, a period of time during which we've seen the cost of retirement increase dramatically while the rate on savings has gone negative when you factor in inflation; we're witnessing the massive migration of Baby Boomers into a retirement for which nearly half are not prepared; we've experienced one of the worst economic downturns in our history which many believe has led to a "new normal"; and the universe of financial products and options has expanded beyond most people's comprehension. It is a truly extraordinary time of confusion and fear which has left many people paralyzed, unable to make the critical decisions that can lead to financial security.

The financial planning process enables you to focus clearly on your specific goals while addressing all of your concerns so they are no longer obstacles. And, having a well-conceived, comprehensive financial plan enables you to shutout the constant drone of doom and gloom, because, in the long-term, your plan is all that matters.

A competent financial advisor will not only guide you through the process of planning your future, he or she should also be your financial coach, coaching you through the brief moments of fear and encouraging you to the finish line.