How to Not Hire a Financial Advisor

Introduction

It's been our experience that many people are hesitant for one reason or another to work with a financial advisor. For those that are currently in a relationship with an advisor, it's difficult for them to walk away from that relationship and/or to transition that relationship to another financial advisor if unhappy.

Let us be clear. We **strongly recommend** that you work with a financial advisor (us, at Sweetgum Labs or another reputable firm) to help plan and secure the future financial well-being for you and your family.

"We believe clients should understand everything that is happening with their money; that advisors should be just as good about explaining investments as they are at making them.

Much of the financial advice you encounter is simply about investments; however, we know that money is about more than investing."

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In writing this insight, we're aiming to provide you as much financial insight as we can (without completely putting you to sleep) so that if you decide, you can set out to manage your own finances, build a financial plan, and prepare your family for a more secure financial futures. Here's how to go about NOT hiring a financial advisor:

Products and Services

• Understand the relationships between Investments, Insurance, Financial planning, Taxes, Estate planning.

– So much information is available online that anyone can easily master a topic with a few clicks and a several hours of reading cross referenced articles. Regardless of how well versed we become on a topic it is important to recognize that mastering a topic is not mastering a craft. A true craftsman respects his/her skill limitations and hires help to fill the gaps (think of planners as a general contractor.)

Many years of experience have taught us that subcontracting aspects of planning such as developing insurance strategies or selecting individual investments is more efficient than trying to do everything ourselves. Our greatest strength may be our ability to recognize our cognitive gaps and leverage others for their strengths.

All components of planning are connected and the biggest mistake a person can make is believing that they are completely covered when to a trained eye it is a case of overconfidence.

Budget

• Create a budget, balance sheet, cash flow and income statement at least once a year.

– Keeping information up to date and relevant is a chore, life will get in the way.

When you hire a planner, we become your accountability coach and gently nudge as things become stagnant. It is critical to have timely updates because as things change in your plan, they directly impact other components of your plan. For example, if health forces an early retirement and that impacts the planned budget, it will affect the capacity to take investment risk. Further downstream (away from the main change) early withdraws may impact taxes and the desired gifting for estate reasons my not be funded as planned.

The more useful the data collected (the capacity to understand it's ramifications away from the immediate concern) the more relevant the planning efforts become.

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Asset Allocation

• Pick an asset allocation from available sources, self-assess the risk you are willing to take, create a due-diligence process to screen investments or monitor fund managers (like a roboadvisor.)

– It is relatively easy to find asset allocation models online and it's nearly frictionless to acquire risk questionnaires to self-assess your risk.

A criterion to screen potential investments and assess performance of pre-made portfolios should be developed to assess the suitability of these investments and that can certainly muddy the waters for amateurs. Concepts such as Sharpe ratios, expenses, past performance and idiosyncratic risk are just a few that help with clarity.

Having a system to evaluate investments is critical to signaling when and if to remove or add an investment.

Insurance

• Look for risk to your plan's probability of success such as death, disability, long-term care. Buy insurance to plug gaps to risk you do not wish to retain.

– Insurance and derivatives of insurance exist to transfer risk from one party to another. Financial planning software allows planners to stress test plans for adverse events. If a plan is particularly sensitive to a certain type of risk, it is critical to address the risk and purchase protection against the adverse event.

Insurance can be a product (life/LTC insurance, annuity, reverse mortgage) or it can be a security (covered calls.) Regardless of the risk its important to address before it manifests itself into a loss.

Healthcare

• Create a will and an advanced healthcare directive

– Understand psychological implications to those whom you plan on gifting.

– Study Estate planning trust construction for higher net worth individuals

– The commoditization of professional services has made establishing a will (directs who obtains your assets at your death) and an advanced healthcare directive (instructs custodians how to care for you in the event of incapacitation) easy and inexpensive to create.

The administrative process of creating these documents is critical but providing financial education and psychological readiness training for the handling of wealth or healthcare decisions to a potential beneficiary is an equally important component to the process. A plan is only as solid as the foundation it is built on.

Your decision making may be rock solid but if your next of kin doesn't understand, respect and accept financial responsibility all the planning may be a waste.

Life Events

• Be prepared to do extensive research with time constraints for topics such as career changes, pension, RMD and other issues as they pop up.

– The best time to start planning was yesterday. Events (good and bad) happen at any moment and the required decision that's needed may be built on flawed logic if you haven't put the work in to have the plan ready for potential shocks. When a time constraint is lingering, attempting to research topics from scratch are a recipe for disaster. Gamification of the potential pitfalls ahead of time leads to informed decision making and much less stress.

Self-Care

• Meditate frequently to remove your own bias from emotional situations (they will come up at some point.)

– This is not a directive to study alternative medicine or burning incense. Meditation can be a cup of coffee, filling out a crossword puzzle alone.

Stop yourself from day-dreaming and losing focus and envision what it is you want out of your financial life. When an important decision needs to be made take a breath a try to remove your emotions from the process. We have seen countless examples of irrational knee-jerk reaction to stressful situations (closing out a 401k to help pay for a medical emergency, going all into cash and gold during 2008 crisis etc.)

Goals

• Update at least annually your goals, growth assumptions, inflation expectation.

– You are the architect of your own financial life, but you don't operate in a vacuum.

To project the future, assumptions need to be made. These assumptions include capital market assumptions and inflation expectations. Spending goal assumptions should be more accurate then outside factors, if they are not, you may be biasing your own plan. Most major banks, insurance company and endowments release capital market assumptions an inflation expectation that you can leverage.

Education

• Comb for news and articles for industry related changes daily.

– Its impossible to digest everything that can affect you (believe us, we tried.) A healthy interest in current events and rule changes will help steer you in the right direction. The game of life is constantly changing but chance favors the prepared mind. Proposals, are just that, don't react until you see something solid to work from.

Qualified Investments

• Understand how to maximize your tax efficiency by contributing to 401k, IRA's, 529s and annuities.

Match investments to their most efficient tax status (stocks in taxable accounts, fixed income in tax deferred.)

– When you have a well written plan and goals are spelled out, the allocation to different types of accounts becomes simple.

Admittedly, many times the fits and starts of planning occurs without the construction of a real plan. What made for an interesting conversation 10 years ago (i.e. college savings) may not be important to you today. Matching the tax status with account type prevents you from overpaying taxes where applicable.

Organize

• Centralize all information with your spouse or person you trust so if you become incapacitated, they can take over.

– Once you have everything written the plan itself is at risk of getting lost (familial dark age) if something happens to you. Have a spouse and at least one other person know of its existence and location.

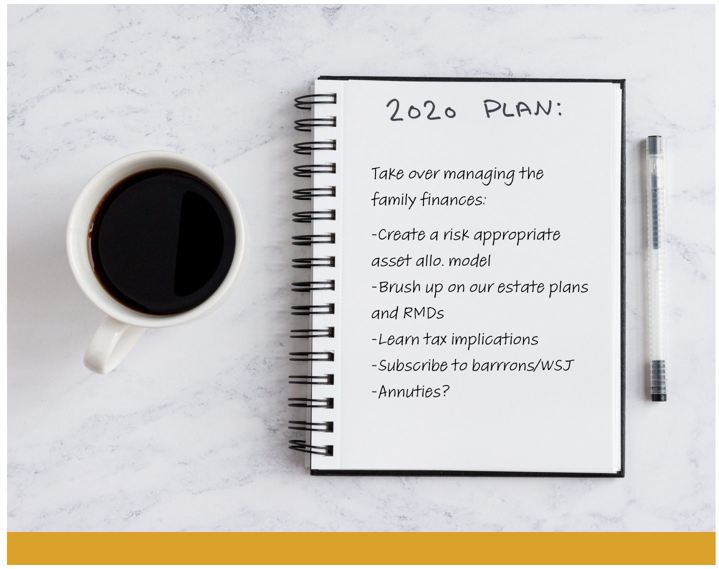
Educate your next of kin in the family credo you have established so it's a clean handoff. A document with a list of assets, passwords, liabilities and high-level wishes will yield better results than an Easter egg hunt during a family emergency.

Again, let us be clear with our intention of this insight:

• This is <u>NOT</u> a comprehensive financial plan or guide to financial success.

This insight is a high-level outline for those that prefer not to hire a financial professional and would like to take charge of managing and navigating their own financial future.

We do, however, believe that if you're able to thoroughly learn, master, and diligently stay on top of the topics outlined within this insight, that you'll be better set-up to manage your own finances and future financial success.



We'll leave you with this:

We believe clients should understand everything that is happening with their money; that advisors should be just as good about explaining investments as they are at making them. Much of the financial advice you'll encounter is simply about investments; however, we know that money is about more than investing—your financial well-being is a foundational component of your life.

If you choose not to go-it-alone and "DIY" your financial future, or if you're simply ready to move on from your current financial advisor, we're here and ready to help.

Financial planning has **evolved**.

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