Wealth Redefined

CHARTING THE WAY TO PERSONAL AND FINANCIAL FREEDOM

BOB REBY

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Contents

INTRODUCTION

Wealth Redefined

> "It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy."
>
> **—GEORGE HORACE LORIMER**

FOR MOST PEOPLE, the word *wealth* conjures images of material possessions and luxury: fancy jewelry, exotic automobiles, opulent living quarters, and vacations in Southern France. To become wealthy is the pinnacle of the iconic American Dream. When you can afford the best of everything you want—that big house with the perfect white picket fence, that boat docked in the harbor—you get to live happily ever after, carefree.

That may be the traditional vision of wealth, but it hasn't been my experience.

One thing I've learned over the past several decades as a Certified Financial Planner is that wealth means different things to different people. Most of the time, when we speak about wealth we're talking about money. However, over the years, I've seen some of our clients who live very modestly feel extremely wealthy because they spend all kinds of free time with their lovely grandchildren or pursuing their personal passions. I've also seen very financially wealthy people with many millions of dollars who feel isolated and lonely in their own world of money.

Wealth is more than money. It encompasses many other things in life that are not counted in dollars and cents. Your health, relationships, and family are all components of wealth. These things generally do not cost anything, but they play a pivotal role in your life. If you're healthy and have an abundance of genuine relationships with family and friends, you would probably never trade those things for material wealth. That's the kind of wealth most people really need and desire, even if they believe material wealth is their ultimate goal.

Living well is more about improving the quality of your life rather than spending money on a lot of stuff. A good example of this is a hardworking executive who works eighty hours a week to earn $200,000 per year so that he can maintain his mortgage and lifestyle, but may have less freedom than the self-employed business owner who works twenty hours a week, earns $50,000, has zero debts, minimal expenses, and more time to focus on his passions, family, friends, and interests.

Quality of life is different for everyone. For some people, this means spending more time with their grandkids on their laps. For others, quality of life means traveling the world and experiencing new cultures. Many people consider an early retirement to be the ultimate goal. Others are too passionate about their careers to even think about retirement.

Wealth Redefined is the culmination of over thirty years of experience advising people on the wealth management philosophies and belief systems that have helped many families achieve financial peace of mind. Money touches nearly every aspect of our lives, but it's critical to view it as a means to an end, not the end in and of itself.

In my opinion, members of the financial media get it wrong when they view material wealth as the end goal and then use their platform to give out advice intended for everybody. For example, they may give advice like "This is why I hate annuities and you should, too" or "Do not eat out at a restaurant for one month." The people who've made these statements may have had valid points about the financial *downside* of annuities or eating at restaurants, but in my experience this is not advice that can be given without a clearer understanding of a person's particular situation, personality, and goals. It certainly does not apply to everyone in America.

For the most part, I agree that annuities are high-priced and commonly misused. However, the higher cost may be a small price to pay for some people who cannot stomach market volatility. Furthermore, eating out at restaurants may be your favorite thing in the world. In that case, giving it up entirely is no way to live; if you need to cut back on spending to remain within your "spending speed limit," do so in other areas where it has less of an impact on your enjoyment of life.

Of course, as a financial advisor, I spend a lot of my time helping clients figure out how to maximize material wealth. But I would be doing them a great disservice if I treated money as the endgame. Money is for security and peace of mind. Beyond that, there's no established universal formula on what you should do with your money. Is having as much money as possible really a worthy goal? Money is merely green pieces of paper and digits on an account statement. It's not necessarily how much you have but what you do with it that counts. Once you have enough to take care of your own basic needs for security and peace of mind, it's time to spend or invest that money in being truly wealthy.

Wealth Is about Being Happy

Wealth redefined is more than a tagline that reflects my personal beliefs. It's also backed by evidence and research. A seventy-five-year study by Harvard psychiatrist George Vaillant[1] proves that more money does not always make us happier. In fact, the correlation between higher income and more happiness plateaus at around $75,000 per year.

This does not mean that $75,000 a year is the magic number for everyone. We're all different personality-wise, and practical factors such as cost of living in your geographic area will affect your own magic number. But that number is probably lower than you would have assumed. More important than income, the study found, is having meaningful relationships with family and friends and a meaningful connection to your work.

The traditional model of wealth building is to go after promotions, grow income, and save and invest to grow your money. Wealth redefined means that we should strive to achieve the right balance in our lives that *also* takes into consideration whether we're spending our time and our money on the right things.

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1 George Bradt, "The Secret of Happiness Revealed by Harvard Study," *Forbes*, May 27, 2015, http://www.forbes.com/sites/georgebradt/2015/05/27/the-secret-of-happiness-revealed-by-harvard-study/#7284f0f32c9f.

For most people, finding the right balance requires introspection and self-knowledge in addition to creative financial planning. Are you spending enough quality time with your family and friends? Is your job aligned with your personal values and passions? Do you have the time and resources to pursue any hobbies you find personally rewarding? Finally, are your decisions with money helping you move in the right directions in these areas?

Don't focus on money first and assume everything will fall into place after that. Focus instead on what true wealth means to *you* and then build your financial strategies around that. For example, let's say that your idea of wealth is to experience many distant cultures and meet many kinds of different people during your life. First, quantify some objectives that support this goal. This could be visiting one new state and one new country for one week each year. Now, estimate how much this would cost you on a timeline, factoring inflation for future years. If you've identified this as your top goal, the pinnacle of what wealth means to you, build the rest of your financial decisions to support this: the career you pursue, the day-to-day living expenses you take on, and how much money you put away in savings.

The key to achieving the wealth of experiences you're after will be to either earn enough income so that you can travel at your leisure or to avoid taking on a lifestyle that would make travel cost-prohibitive. You should also factor in that at some point you may want to stop working, at least full time, and you'll want enough money in investments to eventually transition from working for your money to having your money work for you. This planning takes time and effort, but you can see how, in this example, you are making your money work for you in a meaningful way instead of reaching for traditional goals and then trying to squeeze in the time and money for your passions.

As you map out your financial future, don't start with how much money you can afford to save. Start at the end. Have a goal line that you'll strive to reach. Take some time to think about it. Write out your ideal lifestyle, prioritize according to what you really need to be happy, and distinguish between those necessities and the "nice-to-haves." You may think of your children and grandchildren and decide leaving a legacy is foremost to you. How you spend your time will probably be a priority as well. This is how you start to define the purpose of your assets, the purpose of your money, and even how to invest your time.

Wealth Is about Freedom

All the money in the world means nothing if you don't have the ability to spend it as you wish, or if it's tied up in debts and liabilities. Freedom is the ability to make decisions on your own and determine what you do and when you do it.

It's better to work because you want to than to work because you have to. I'm always impressed by people in their seventies and eighties who are financially independent by every definition that you can think of, but they still love their work. It keeps them very active mentally and emotionally and even helps them physically. Other people transition from a career where they make a lot of money to working full time making less money, following their passion or even working for free for a charity or nonprofit.

This type of freedom—for most people—will require a certain amount of traditional wealth accumulation. Ultimately, however, I believe financial independence is truly about making the transition from working for your money to having *your money work for you*. Once you've accumulated enough money through traditional wealth-building to be able to leverage your assets to create predictable streams of income that will support your lifestyle, you can make decisions on your own terms, not someone else's. You're in the driver's seat on the road to true wealth.

Wealth Is about Peace of Mind

Money is an emotional topic. On the one hand, we can agree that money isn't everything. On the other, your life savings represents decades of hard work. It's what your family relies on for stability and comfort. It may even be your children's or grandchildren's college education or legacy. For these reasons and many others, financial worry can keep you up at night no matter how high your income or how large your portfolio.

Being fearful of the next market downturn, losing your job or a big client, or running out of money after reaching retirement can sometimes be as restrictive and emotionally taxing as those things actually happening. When I work with clients to develop a financial plan or investment strategy, financial peace of mind is the ultimate goal. Unless you're comfortable and confident in the path forward, you probably will not stay the course of your plan, no matter how well constructed it is or how conclusive the evidence is that supports it.

As I'll cover later in this book, this emotional connection with your money can be incredibly destructive when you allow fear and greed to influence your decisions. Achieving financial peace of mind makes it much easier to remain calm and objective in your decisions and ultimately leads to greater financial and emotional health.

Because of the emotional component to money, achieving financial peace of mind may be the most complex problem in all of personal finance. The vast majority of people face financial tradeoffs in every investment, insurance, or planning decision they make. You're often balancing multiple goals and prioritizing. Whether it's buying a second home, downsizing, or simplifying your lifestyle to shed some costs you really don't need, I've found it's important to talk through these priorities and understand your options in order to be truly comfortable with your plan moving forward.

Once you've prioritized and decided which goals take precedence, you need an income strategy—not an investment strategy—to support these goals. Investments are part of your income strategy, but the exact performance of your portfolio is not as critical to your peace of mind as having predictable streams of income you can count on to support your lifestyle.

Balancing tradeoffs between your own peace of mind and helping family

As I mentioned, a big part of achieving financial peace of mind for many people is knowing that your children will be okay financially. However, with rising prices and taxes, particularly the high cost of a college education, it's harder than ever to support children without sacrificing your own quality of life.

Keep in mind that if you hand a child a million dollars, or even two million dollars, it won't necessarily last a lifetime—especially if they do not have the wealth skills to protect and grow their money with evidence-centered investment strategies.

I challenge clients in our meetings to really think about the tradeoffs between financial flexibility for themselves and being able to help their children. The process starts with simply asking questions.

Are you willing to work six more years to support your goal of paying for their college education or medical school? On the other hand, could these children who you've worked hard to educate and be a role model for share some of the education cost, so you could retire in six months instead of six years? Is that a trade-off you'd rather make?

A better gift than leaving an inheritance (and one that does not cost you anything) may be teaching your kids fundamental personal finance skills. Teach your kids, in concrete terms, how the 15% interest rate applied to their credit card balance can hurt their lifestyle if they don't have the discipline and the means to pay off their balances in full. Get them in the mindset of paying themselves first, thereby building discipline to live within their means. Today young adults are spending too much money relative to their income and savings (or lack thereof). It's a challenge to balance living the lifestyle that they aspire to versus making necessary sacrifices.

If your children are of working age, I recommend telling them this: If you're not investing, if you're not having your money put to work as hard as you're working for it, it's a mistake that can hurt your future. And as important as it is to invest your money, it's even more important to invest in yourself and be marketable in today's fast-moving, fast-paced world.

I realize that not all millennials are ready to make lifestyle sacrifices. In the era we live in, it's understandable why they may not have trust in financial institutions and financial markets; this lack of trust may make them reluctant to believe that sacrificing now by investing their money will pay off in the long run. However, consider putting it in these terms:

- If you save $5 per day by not eating out for lunch and instead invest that money to earn a conservative 6% return, you end up with more than $17,000 in ten years and more than $100,000 in thirty years.

- By brewing your own coffee instead of spending $2 per day and investing the savings, you accumulate more than $10,000 over ten years and more than $60,000 over thirty years.
- If you save and invest $7.30 per day (the average cost of a pack of cigarettes), your ten-year savings would be more than $37,000 over ten years and more than $220,000 over thirty years.

This math works for any small change in your daily spending. That's the magic of compounding interest, and the younger you are, the more this works in your favor. And for those who are skeptical of financial markets, even factoring in the impact of the Great Recession, markets have *always* gone up over the long run.

To be intellectually honest, I admit that the figures above look greater than they actually are, because inflation will reduce the future value of those sums of money. But these aren't small numbers, and even factoring in inflation, your child may be more willing to make some minor lifestyle adjustments now when they consider the purchasing power of their money after the magic of compounding interest has been applied.

When helping your children choose their college courses or major, take a step back and consider the spendable income their degree can offer over a lifetime. Calculating the high cost and years of education, studies show that a doctor may have only $500 a year more in spending money than a plumber.[2]

It's not advisable to choose a career solely because of money, because the graduates who do well in life are those armed with talent and ambition, not necessarily those who chose the major that pays the most. Furthermore, some people simply are not a good fit for

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2 William Baldwin, "The 10 Steps to Make Your Kid a Millionaire," *Forbes*, June, 8, 2011, http://www.forbes.com/forbes/2011/0627/money-guide-11-kotlikoff-roth-ira-mutual-fund-kid-millionaire.html

certain careers. (I personally learned in college that I was not born to be an engineer, but I was very strong at finance.) The point is to help your children carefully consider various education options to make sure they won't end up with a huge debt by graduation time relative to the income they can expect.

Building wealth starts with having the right mindset—a viewpoint that seeks a clear view of the future, an honest understanding of the current situation, and a strategic approach on how to get from where you are now to where you want to be. Instilling this mindset can be the greatest gift of all to a child who you'd like to be financially independent some day.

Peace of mind challenge: Avoid being a burden to loved ones

I have talked to thousands of families during my career, and something that comes up a lot is that people do not want to become a burden to their loved ones. This doesn't mean the same thing for everybody, but I do believe the whole concept of maintaining your dignity as you age is critical for many people. They want peace of mind in knowing they won't have to rely on their children or their grandchildren for more help than they are comfortable asking for.

Issues we often do not like to think about, like independent living, assisted living facilities, and long-term care, are important for planning purposes when determining how much money you need to achieve financial independence. Like many other advisors, I used to talk about "longevity risk" a lot, which is living longer than you're supposed to (statistically).

With today's improvements to health care, I almost always assume, as if it were a fact, that at least one person in a married couple will live into their nineties or older. Without making this assumption, my clients would run the risk of running out of money, nearly everyone's greatest financial fear.

The ability to address the issue of maintaining independence as you age essentially comes down to the three factors that influence just about everything: time, resources, and willingness to make tradeoffs. The more time you have to plan, the more flexibility you'll have to insure yourself against independence risk or to build the assets to self-insure. The more money you have, the more options you'll have available to you. And finally, what are you willing to give up as a tradeoff?

How to Achieve *Your* Vision of Wealth

At this point, I hope I've convinced you that there's no set-in-stone dollar amount to which we all must aspire to be considered wealthy. The age-old question of "How much money do I need to retire?" should be replaced with "What does financial independence mean to me, and how do I achieve it?"

This book will cover this question, with a particular focus on conservative financial planning strategies and evidence-centered investing that will help you transition from working for your money to having your money work for you. I'll discuss the roadblocks you'll probably encounter on your road to financial independence, how Wall Street is failing Main Street, and relevant case studies illustrating how people become *their* idea of wealthy.

CHAPTER

1

Wall Street vs. Main Street

WHAT THE BIG BANKS AND BROKERAGE FIRMS DON'T WANT YOU TO KNOW

> "Lesson number one: Don't underestimate the other guy's greed."
>
> —**FRANK LOPEZ, *SCARFACE* (1983)**

WHEN YOU NEED professional financial advice, how do you know who you can trust? A traditional approach is to turn to Wall Street institutions: dominant banks with wealth management divisions that have given advice to many generations of Americans. On the surface, this seems like a safe bet. These banks spend millions conducting research on financial markets and developing complex algorithms to guide their buy-sell decisions. They hire and groom the smartest Ivy League graduates as analysts, and the advisors present you with a polished proposal, complete with beautiful charts and graphs that make it look like they have money down to a science.

Too frequently in my career, however, I've seen people from Main Street get bad or incomplete financial advice from these Wall Street institutions. The advice often lacks transparency, results in the client paying commission fees that are too high, and overlooks the tax consequences of where and how they invest their money. Depending on the individual, the added expenses and unnecessary taxes they pay may amount to tens of thousands per year. Accumulated over a lifetime, it's not an exaggeration to say these unnecessary costs may shave five years off your retirement. It may also be the difference between running out of money and sustaining a good lifestyle.

Perhaps even more costly than the unnecessary fees and taxes Main Street ends up paying as a result of their advice from Wall Street is *the advice they aren't getting*. Most people I sit down with who have an advisor at a major bank are not getting advice on critical topics such as the type of insurance they should buy, exactly how much money they can afford to spend each year without running out of money, and how and when to claim Social Security and Medicare. These areas of personal finance are arguably as important if not more important than the funds you invest in. Ignoring these issues may not result in losing a few percentage points of earnings from your portfolio, but it may result in a complete loss of financial independence.

To protect yourself and your family against this poor or incomplete advice, it's critical to know where Wall Street leads Main Street astray, the reasons for the poor or incomplete advice being given, and how you can identify the warning signs that are revealed when an advisor isn't giving you the quality of advice you deserve.

Is Your Advisor Putting Your Interests Ahead of His Own?

Many people are surprised that half of professional money managers do not invest their own money in the same portfolios they build for others. This is a startling figure that begs the question, *Why not?* If they believe in these portfolios and investments enough to sell them to the public, why wouldn't they invest their own money in them?

Unfortunately, Wall Street often has a conflict of interest with its clients. Contrary to popular opinion, many advisors at these large banks are not required to put their clients' interests ahead of their own when giving financial advice. Some advisors may recommend investments that include fees because those are the investments that pay them commissions. It's hard to blame them for doing what they need to do in order to pay the bills and feed their families, but it's also difficult to trust the advice when they get paid more for selling you an investment that's *worse* for your family.

The term *advisor* has become a misleading job title in many cases. Registered representatives at these banks used to be called *stockbrokers*, a term that's been stigmatized through pop culture and mainstream media. Now just about everyone who sells securities has the benign title of *financial advisor*, or simply *vice president*, even though the job description hasn't changed much.

Many of these brokers are not fiduciaries to their clients. This means they are held to a lesser standard called *suitability,* which means the investment strategy they recommend to clients must meet the objectives of the investor. Suitability, however, does not mean that the investments recommended are the ones *most likely* to help an investor reach their objectives or even that the advisor selling the securities believes that it is the best investment for the client.

This suitability standard allows the advisor to sell securities and funds with unnecessarily high fees, even though there is no correlation between fund expenses and fund performance. In some instances, the same exact investments may be available for no fee, but the client never sees those opportunities because the advisor cannot earn a commission from them.

There are also hybrid situations where the advisor *almost* puts your interests first, but not completely. Large investment banks underwrite certain financial products, such as tax-free municipal bonds or master limited partnerships. They earn more profit from selling products they underwrite themselves, because they make money through multiple channels that way. So there might have been a better tax-free municipal bond for you to own, but you never got a chance to actually see it because your advisor may have an adverse incentive to sell you the one being distributed by the company itself. The advisor may not be selling you something that's bad for you—as a tax-free municipal bond may be what you need—but the particular one sold to you was not the best of its class.

The first step to safeguarding against this type of conflict of interest is to understand the type of financial advisor you're working with and the extent of his or her legal obligations to you. To avoid the conflict of interest inherent in working with a commission-based broker, you can work with a financial advisor who has a fiduciary duty to put your interests first, a Registered Investment Advisor (RIA) or a Certified Financial Planner (CFP). Being independent, RIAs have a wide universe of products to make available to you, and they are obligated to recommend the best option for you. A Certified Financial Planner is held to an even higher standard, including professional experience requirements, ethics coursework, and continuing education.

Now, it's important to remember that while fiduciaries are held to a higher standard, this does not mean that they necessarily have more integrity or ethics. There are fiduciaries who do not act in a fiduciary way. Bernie Madoff was a fiduciary.

What's more important than a title, of course, is that that the advisor is *acting* in a fiduciary way and giving advice in the spirit of "What I would do if I were you." This should be the golden rule of the financial advisory industry.

How do you know if an advisor meets this standard? Here are a few questions you can ask yourself about your current advisor (or questions to ask a prospective advisor) in order to determine whether the advice you're getting is in your best interests and truly comprehensive:

- Does your advisor talk to you about the tax ramifications of where you put your money and when and how you take it out?
- Does your advisor give advice based on your personal values, dreams, and goals for both you and your family?
- Does your advisor offer advice beyond assets under management, such as your overall spending rate, the risks to your lifestyle, and Social Security and Medicare selections?
- Does your advisor proactively communicate with you during recessions or market downturns and coach you away from emotional investing based on fear and greed?

If you answered yes to these questions, you're likely working with an advisor who's looking after your best interests. If not, you probably have holes in your current financial plan and would benefit from more comprehensive advice.

The following sections of this chapter are dedicated to each question, why it's important, and how your answer helps reveal the quality of the advice you're getting.

Does Your Advisor Talk about the Tax Ramifications of What You Do with Your Money?

Taxes are one of the most significant expenses in nearly any household. For most retired households, it's the greatest expense. Yet most advisors do not review their clients' tax returns each year to help save money on taxes, increase cash flow, and improve quality of life.

If advice on how to maximize post-tax income does not come from a financial advisor, who will it come from? Most accountants are hired to review your income *after* your investment strategy has been in place. Their focus, generally, is minimizing your tax bill after the fact. The best accountants may advise you on how to minimize taxes on your investment income going forward, but they aren't the ones executing trades for you. That responsibility falls on your advisor (or you, if you handle your own investing).

Here are a few ways an advisor who's giving comprehensive fiduciary advice can help reduce your income taxes:

Advise how to invest your assets to minimize your current income taxes

There is almost always room for improvement when it comes to minimizing your income taxes, especially if you're earning more than you're spending. Once you have enough cash reserves for emergencies and unexpected expenses, it's usually to your advantage to invest your surplus in a qualified retirement account, which means you get to invest your pretax income and defer taxes until it's time to withdraw funds in retirement. To minimize income taxes preretirement while you're in the wealth accumulation phase, maximize 401(k) or Traditional IRA contributions. This is really simple advice that has an immediate positive impact, but many advisors will overlook the opportunity.

Advise how to invest your assets to minimize income taxes in retirement

As you approach retirement, it's often a good idea to also have an account outside of your retirement accounts. How can this be used to your advantage? Having a standard non-retirement account may reduce your income taxes when you're withdrawing from your assets in retirement. Gains from these non-retirement accounts may be taxed as long-term capital gains, which is lower than the tax rate on ordinary income. In addition, your non-retirement account may have a loss, which enables *loss harvesting* at the end of the year. Loss harvesting means you sell assets at a loss, and use that loss to offset your other income. This minimizes your income tax bill in a way that having a 401(k) alone cannot.

While I realize this advice may seem to contradict my first point about the advantages of retirement accounts, this is a delicate balancing act that should not be implemented without thought and strategy.

Telling you when and how much to withdraw from an IRA account

There is really nothing worse than finding out after you've made a decision that you've thrown away thousands of dollars unnecessarily.

After you've reached the minimum distribution age of 59 ½ to withdraw from qualified retirement accounts, it's critical to consider the income tax ramifications of your withdrawals. Because you contribute to these retirement accounts with pretax money and your contributions grow tax-free, your distributions are taxed as ordinary income. Income taxes are progressive, and all of your ordinary income counts; so if you withdraw too much too soon, you'll end up in a higher tax bracket. This affects all of your income streams. On the other hand, if you take less than your required minimum distribution, you may pay a penalty later for not taking it sooner. A true Certified Financial Planner will help you avoid making these mistakes.

Choosing how to take an inherited legacy

When your children inherit a legacy, how they take it can result in significant tax savings. An advisor should give sound advice on the tax ramifications of taking the inheritance in a lump sum, deferred over five years, or spread out over a lifetime. Keep in mind that estate planning is a highly specialized field. Financial advisors should know about the topic, but almost none of us—myself included—know everything there is to know. Good advisors recognize their own limitations and will have a network of specialists to whom they can refer you for more advanced advice.

Does Your Advisor Give Good Advice?

Having a comprehensive financial plan is not a goal in and of itself. What matters most is everything that comes with it: reduced anxiety over money, more confidence in knowing the future, and the freedom to pursue your passions. A financial advisor who doesn't first take the time to learn about you, your family, and what you value and love the most cannot devise a plan that's right for you . . . unless he or she happens to guess correctly about these things.

To illustrate how a sound financial plan changes with individual needs and preferences, here are three hypothetical situations, all of which include investible assets of $750,000 at the time of retirement. Note that the dollar amount here is not as important as the process of identifying goals, prioritizing based on your values, and developing a financial plan that best utilizes the resources available to you to achieve your goals. This process is relevant whether you have a hundred thousand, one million, or ten million.

Family #1

- *Investible Assets*: $750,000
- *Family Situation:* Three successful children with high income for whom an inheritance would be "nice to have" but not at all necessary.
- *Lifestyle Goals:* Living near family in the tristate area during spring, summer, and fall, but likes to stay in Florida during the winters. Enjoys traveling and loves visiting Europe.
- *Financial Strategy:* Withdraw 6% of total investible assets ($45,000) each year to cover living expenses (along with Social Security income), and keep the remaining 95% in a 60%–40% mix between equity investments and fixed-income investments to maintain long-term growth.

The 6% "speed limit" on withdrawals exceeds the 4% rule of thumb because the couple recognizes that as they age, their ability to travel may become limited and they are willing to make the tradeoff of having lower income capability in the future in order to see as much of the world as possible while they are still young enough to do it. In addition, they are confident their children do not need an inheritance in order to achieve their own financial independence. Due to inflation, every five years they will adjust the withdrawal allowance up 15% to maintain the same quality of life (i.e., in five years, the withdrawal increases to $51,750).

Family #2

- *Investible Assets:* $750,000, and a business that can be sold for $150,000.
- *Family Situation:* Sixty-five-year-old couple with two children; the husband also has a thirty-year-old child with special needs from a previous marriage.
- *Lifestyle Goals:* It is important for the man to have peace of mind in knowing his special-needs child is cared for after he passes away. He also wants to ensure his two kids with his current wife are not excluded from the inheritance.
- *Financial Strategy:* Establish two separate trusts: one for the special-needs child and one for his two other children. The trust for the special-needs child should be held by a competent, trusted family member, who will distribute the money in a deferred manner to the special-needs child. This avoids inflating the net worth of the trustee, which could disqualify him from government benefits.

Family #3

- *Investible Assets:* $750,000
- *Family Situation:* Married couple with five children and $200,000 remaining on a mortgage at 5% interest. There is a family history of health issues on the father's side.
- *Lifestyle Goals:* Lead a comfortable lifestyle in their current home, spend time with family, and have peace of mind knowing that, should health issues arise, the rest of the family is protected.
- *Financial Strategy:* First, refinance the remaining mortgage into a fifteen-year loan with 3% interest. The cash the couple saves by not paying the mortgage off in full now can produce a higher rate of return than the 3% in interest they will pay. Plus, the 3% interest is a tax deduction. Second, the couple can purchase a long-term care insurance policy, which can cover the high cost of long-term care (on average, $350 per day in their home state of Connecticut) if the need arises and help keep the family finances stable.

Does Your Advisor Offer Advice beyond Assets Under Management?

To give the most helpful advice possible, a financial advisor should understand your entire financial picture, including assets not under management. Too many non-fiduciaries take the "out of sight, out of mind" approach to the financial assets they are not actively managing. This approach naturally results in the client getting incomplete advice.

Here are a few types of assets often held outside an advisory account that have a significant influence on a household's overall financial well-being:

- Personal property including real estate, fine collectibles, and vehicles
- Savings accounts held at a local bank
- Separate investing accounts
- Pensions that are paid monthly for life
- Future inheritances
- Your future expected Social Security benefit

An advisor who is truly looking out for your interests wants to know about these assets in order to give sound advice on topics such as the following:

- Should you pay your mortgage off now or use free cash to invest and claim mortgage interest as a deduction?
- Have you surpassed your "spending speed limit," and are you at risk of running out of money?
- Do you have the insurance coverage you need to protect against liabilities?
- Are you receiving Social Security and Medicare benefits?

Some of the most important financial advice you'll ever get will be unrelated to investing. Taking Social Security at the right time, for example, can add hundreds of thousands of dollars to your lifetime benefit, plus additional investment returns from receiving bigger or earlier checks (depending on which claiming strategy is right for you).

Another example of critical advice is how much you can safely spend each year without the risk of running out of money. I've seen many people slowly and painfully outlive their money, sometimes due to factors outside their control. However, in some cases it was simply due to a lack of advice on how their spending habits would affect their future income capability. While an advisor cannot withhold your money from you, it should be his or her fiduciary duty to advise you on the future ramifications of your current withdrawals and spending.

Does Your Advisor Proactively Communicate with You during Recessions or Market Downturns?

Did you know the average investor earns 5.2% less than the unmanaged S&P 500? This happens because the majority of investors allow fear and greed to factor into their decision-making. When the market goes up, many people get excited and buy; when the market tanks, they get scared and sell. This is a perfectly human reaction to the stock market. But it results in a situation where you end up buying high (after the boom has started) and selling low (prematurely, before the rebound). Over the long run, people who remain in a solid investment through rough economic patches keep the full historic returns of that investment. Part of a financial advisor's job is preparing clients for market volatility, both technically (through a diversified portfolio) and emotionally (by providing a calm and rational voice during economic volatility).

Advisors who simply take buy-sell orders because it's the easy way to keep clients happy are doing their clients a great disservice. Your advisor should provide ongoing coaching, reassuring you during recessions that you have a sound long-term strategy and are poised to capitalize during the upcoming rebound. During good times, your advisor should remind you that no bull market has ever lasted forever, prepare you emotionally for the next major downturn, and advise you on your spending, withdrawals, and asset allocation accordingly.

By helping clients avoid emotional investing, advisors can dramatically improve their clients' *return on behavior*. Markets have always gone up in the long run, but *investors' behavior* can be their own worst enemy—a concept I elaborate on in its own chapter.

I've detailed some of the most common oversights from Wall Street advisors and non-fiduciary advisors in general, but if you're getting incomplete advice (or no advice at all), how can you know whether you're doing well or not? The following chapter reveals exactly how to determine your overall financial health as it relates to your ability to achieve financial independence and sustain a good lifestyle

About the Authors

AFTER GRADUATING FROM James Madison University with a BA in Finance in 1985, Robert J. Reby decided to pursue his passion for personal finance by founding Reby Advisors. After more than three decades in business, his vision and the firm's mission remain the same: to inspire people to achieve financial peace of mind.

Under Bob's leadership, the firm has grown from a local financial planning firm to a wealth management practice that has a national footprint with offices in Connecticut, New York, and Florida. He has been recognized by *Barron's* as one of America's Top Financial Advisors and the top independent financial advisor in Western Connecticut.

Bob has appeared on variety of media including CNN, CNBC, FOX-TV, *Business Week*, *Fortune*, *Investor's Business Daily*, Forbes.com, and many others. He was also an on-air financial specialist for "Good Morning, Connecticut," hosted "Money Sense," a weekly radio show offering financial education, and penned a weekly newspaper column of the same name for the *News Times*.

Bob is active in numerous professional organizations including the Financial Planning Association (FPA) and the World Presidents' Organization (YPO). He is also involved with numerous philanthropic organizations. Former Governor of the State of Connecticut M. Jodi Rell recognized Bob for his service and significant contributions to the Danbury area and the State of Connecticut when she proclaimed October 6th to be Robert J. Reby & Company Day.

Bob's commitment to improving lives through financial education prompted him to author his first book, *Retire Without Worry*. His firm has been a community leader on this issue as well, hosting numerous complimentary events, including the annual economic symposium "THE ECONOMY and YOU."

Outside the office and the world of personal finance, Bob lives in Ridgefield, Connecticut, with his wife, Mary. Bob is also an avid golfer and tennis player. He has earned a national final ranking as high as 30th in the United States Tennis Association in the Senior Division.

Wealth Redefined: Charting the Way to Personal and Financial Freedom is his second book.

GREGG D. RUAIS is s managing member with Plan2Profit, a consultancy specializing in marketing and communications strategy. He has been writing professionally since 2004, collaborating with financial companies, market research firms, and numerous digital publications. He and his wife and two children live in Stamford, Connecticut.