



**eclectic**  
ASSOCIATES

**It's Your Money  
Week 2**

**Financial Planning**

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**Our Agenda for IYM Week 2**



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**Ask First!**

- B.S. Business Administration, Biola University.
- CFP & CFA.
- I am an investment advisor representative for local RIA, Eclectic Associates Inc.
- 17 years experience at Eclectic.
- I serve clients as a fiduciary at all times.
- Eclectic is fee-only meaning the only way we get paid is by our clients.
- I do not sell any financial products or have any affiliation with a company that receives sales commissions for any financial products.

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### What is Financial Planning?

*Financial planning is the **long-term process** of wisely managing your finances so you can achieve your goals and dreams, while at the same time negotiating the financial barriers that inevitably arise in every stage of life.*

**Financial planning is a process, not a product!**

*Develop and regularly update a financial plan that helps you to live with less anxiety around your money.*



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### The 6 Steps of Financial Planning

- Step 1: **Establish Goals and Objectives**
- Step 2: **Gather Data**
- Step 3: **Analyze & Evaluate Your Financial Status**
- Step 4: **Develop a Financial Plan**
- Step 5: **Implement the Financial Plan**
- Step 6: **Monitor the Financial Plan & Make Necessary Adjustments**

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### Establish Goals and Objectives

- Income Now
- Income at Retirement
- Income Tax Deferral / Reduction
- Capital Growth
- Safety of Principal
- Education of Children
- Liquidity
- Freedom From Management



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### Establish Goals and Objectives

- Objectives should follow the SMART approach:
  - Specific
  - Measurable
  - Attainable
  - Relevant
  - Time frame

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### Establish Goals and Objectives

- Assumptions
 

Category	1926-2022	2013-2022
Large-Cap Stocks	10.1%	12.6%
Small-Cap Stocks	11.8%	10.3%
Long-Term Govt Bonds	5.2%	0.7%
U.S. Treasury Bills	3.2%	0.7%
Inflation	2.9%	2.6%
- Annual Savings
- Inflation
- Investment Return
- Social Security
- Tax Rates

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### CASE STUDY

- Meet Don and Mary
  - Fullerton Residents
  - Married with two adult children
  - Don is a civil engineer
  - Mary is self-employed
  - Active in community at their church and local non-profits
  - Primary goal: Retire at age 65, live on \$130,000 per year
  - Second goal: Cover a quarter of their son's remaining college expenses

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### Gather Data

- ASSETS minus LIABILITIES equals NET WORTH  
(A "balance sheet" is used by corporations. Assets = Liabilities + Shareholder's Equity)
- What do you own? ASSETS, such as bank accounts, investments, retirement accounts, cash value of life insurance, real estate, cars, artwork, etc.
- What do you owe? LIABILITIES, such as mortgages, credit card debt, home equity line of credit, auto loans, personal loans, notes, etc.
- Example of a Net Worth Statement next slide (A snapshot in time.)

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### Gather Data

- Don & Mary's NWS
- As of 1/1/2023

<b>Cash &amp; Money Market Accounts</b>	
Bank Checking and Savings	30,000
<b>Retirement Accounts</b>	
Employer 401k	1,300,000
Roth IRA	100,000
IRA	200,000
<b>Investment Accounts</b>	
Trust account	400,000
<b>Real Estate</b>	
Primary Residence	1,300,000
<b>Liabilities</b>	
Primary Mortgage at 3.5%	(90,000)
<b>Net Worth</b>	<b>3,240,000</b>

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### Gather Data

- INCOME minus EXPENSE equals NET INCOME
  - (Sometimes referred to as net cash flow)
- What are your sources of INCOME? Job, pension, rental income, annuity payments, payments from a personal loan, Social Security, dividends, capital gains, interest, etc.
- What are your EXPENSES? Mortgage, utilities, groceries, taxes, gardening, insurance, gifts, travel, gasoline, auto service, doctor visits, prescriptions, ATM cash withdrawals, credit card use, once-a-year expenses, etc.
- Track all income and expenses – every penny – for three months.
- Don and Mary example

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### Gather Data

- Investment Account Statements
- Tax Returns (Federal & State)
- Insurance Policies (home, earthquake, auto, life, health, personal liability, LTC)
- Estate Planning Docs (trust, wills, POAs, AHCDs)
- Risk Tolerance
- Values
- Health / Expected Longevity
- Potential Future Resources

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### Analyze & Evaluate Your Financial Status

- Risk Tolerance
  - Your ability and willingness to live with risk
- Do you think more about losses, or lost opportunities?
- What financial thoughts keep you from sleeping?
- Financial Statements: Read, Deny, Ignore, Remember, Forget?
- What did you do with your investments in the Fall of 2008? March 2020?
- What is your age? Years to retirement? Is your job at risk? Etc.
- Quick Guess: Start at Age = Cash + Bonds, Then Increase or Decrease

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### Analyze & Evaluate Your Financial Status

- Can you tolerate **-35% loss** to earn a **41% return**




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### Analyze & Evaluate Your Financial Status

- **Retirement Projection:** Do you have enough saved?
- **Good:** current salary X 25 = enough.
- **Better:** yearly cost of retirement (incl taxes) X 25 = enough.
- **Best:** detailed 40-year retirement projection which includes total investment assets, conservative investment returns, inflation expectation, Social Security income, tax strategy, tax deferred retirement accounts, life expectancy assumption, passive retirement income, family health history, etc.

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### Analyze & Evaluate Your Financial Status

- **40 Year Retirement Projection**
- Detailed analysis
- Multiple scenarios – rinse/repeat
- Conservative assumptions
- Allow for the unexpected
- Very good directionally
- No way numbers will be perfect
- Married couple both age 65 has 20% chance of one living to 95

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### Analyze & Evaluate Your Financial Status

- Don and Mary's Projection
- 6.0% return pre-retirement / 5.0% return post-retire
- 3.0% inflation assumption
- Save \$30,000 per year toward retirement accounts
- Social Security benefits = \$50,000 per year @ 65
- \$4,116,000 in retirement assets at 65
- Spend \$130,000 per year
- ~\$5m in retirement assets at 95

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## Develop a Financial Plan

- Write it down
- Goals
- Budget
- Asset Allocation
- Retirement accounts-Roth conversion?
- Investment Philosophy / Strategy
- Charitable (QCDs, DAFs, donate appreciated stock)
- Action Plan

Investment Type	Proposed Percent	Invested Dollars
Bond Funds & Cash Equivalents (<1%)	30%	\$700,000
Stock/Stock Funds	50%	\$1,000,000
Alternatives	15%	\$300,000
<b>Total Investments</b>	<b>100%</b>	<b>\$2,000,000</b>

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## Implement the Financial Plan

- Consolidate accounts for ease of management
- Verify cost basis and tax implications before making taxable account trades
- Make trades to implement new target investment allocation
- Adjust saving plan according to budget, where to best allocate savings
- Contact insurance agent
- Contact estate planning attorney
- Contact tax preparer

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## Monitor the Financial Plan & Make Adjustments

- Know What You Can Control
  - Total control
  - Some control
  - Out of your control

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### Financial Planning Mistakes People Make

- Lack of purpose – “Retire TO something”
- Move out of state for \$ alone – sometimes it doesn’t make financial sense
- Fail to prepare for market downturns – they happen! – don’t bail out
- Don’t get caught up in manias and fads
- Don’t think they’ll live very long
- Take Social Security too early
- Spend too much in early retirement years - “Free Time is Expensive”

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### Hiring a CFP®

- You can be your own financial planner.
- A CFP® Professional will lead clients through the financial planning process.
- Titles are interchangeable and don’t mean anything.
- Some designations are worthwhile, but most are almost worthless.
- BrokerCheck / IAPD Advisor Search websites to look up professional history.
- Compensation
- Referral from family, friend, professional.

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### Questions?



Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® (with frame design) in the U.S., which it awards to individuals who successfully complete CFP Board’s initial and ongoing certification requirements.  
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Contact me for a free discovery meeting.

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**David MacLeod, CFA, CFP®**  
 Chief Investment Officer,  
 Financial Advisor, Owner

- Enjoys breaking down technical aspects of financial planning into plain English for clients
- Intent on helping clients make good decisions that culminate in financial independence
- An advocate for fee-only financial planning
- Member of Orange County chapters of the FPA and CFA Society, and Fullerton Chamber of Commerce

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