



It's Your Money, Class 6: Smart Financial Planning 2

Money & Peace of Mind

Carl Lachman, MBA, CFP®



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Do you have peace of mind about
your money?

Yes?

No?

Sometimes?



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What does a lack of peace of mind look like?

- Do I have enough?
- What if I run out of money?
- What if my investments go to zero?
- What if I don't have the funds to buy the things I need?
- What if I can't afford my doctor's best recommendation?
- Anxiety, worry, concerns, distraction, no rest, no fun



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Why is peace of mind hard to find when it comes to money?

- We don't have unlimited funds.
- We can't predict the future.
- We don't know everything about finances.
- We don't have control over everything in our lives.



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Agenda

- Review classes 1-5.
- Discuss our brains
- Make a plan to find some peace of mind
- Conclusion



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The Mission of “It’s Your Money”

The Financial & Estate Literacy Organization Website states: *To prevent financial abuse by educating seniors to take control of their financial, estate, and charitable giving decisions.*



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Week 1: Goals & Objectives

- Workbook helps us think about and document the goals and objectives we have for our money.
- Goals are more general. Objectives are specific.
- Short term vs long term goals.
- Objectives are specific, measurable, attainable, relevant, and have a time frame.



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Week 1: Risk Management

- Workbook suggests risks can be managed in two primary ways:
 - 1.) Use insurance to manage the risk of catastrophic, but rare, events.
 - 2.) Keep your personal risk tolerance in check. Only take minimum amount of risk needed to achieve your goals.



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Week 1: OBBBA Tax Update

- Lower tax brackets. Top rate 37%.
- Higher standard deduction. SALT deduction now up to \$40K.
- Additional \$6,000 deduction for ages above 65.
- Estate & gift tax exclusion \$15million on 1/1/26.
- No tax on tips, overtime, and car loan interest.
- Elimination of energy credits.
- Charity gift deduction has 0.5% AGI floor starting 2026.



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Week 2: Smart Financial Planning 1

- Understand your assets and your plans for them. Cost Basis. Titling. Net worth statement. Income sources. Cash flow. Budgeting.
- Write down, implement, & monitor your plan.
- Retirement income projection to see what you can spend.
- Get a financial advisor? Watch the titles & designations. How do they get paid?



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Week 3: Today's Investment World

- Brokers vs. advisors.
- Suitability vs. fiduciary.
- Licenses let them sell you something.
- How do they get paid?
- Designations might show knowledge.
- Active vs. passive investing.
- Annuities, mutual funds, ETFs, equities, fixed income, partnerships, REITs, insurance, commodities, alternatives, and reverse mortgages.



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Week 4: Equities & Fixed Income

- Stocks, bonds, and cash.
- Benefits of them.
- The returns to expect from them.
- The effect of interest rate changes.
- Domestic vs. international markets.
- Asset class returns.
- Choosing a mix of investments.



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Week 5: Medical Care Planning

- Most of us will eventually need care.
- What sort of care will you want?
- Who will help and care for you?
- How will you pay for the care?
- How does Medicare help?
- Who will make decisions for you if you are unable to do so? Have you communicated your wishes?



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Week 6: Bring It All Together

- This week is about bringing everything we have covered together and putting it into action.
- If you can bring it together and put a financial plan into action, I think you will go a long way toward achieving peace of mind about your money and your future.
- But, as you work toward that, if you aren't careful, your brain is going to get in the way.



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Peace of Mind Ingredients



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Peace of Mind Ingredients

- Knowledge = basics of personal finances.
- Discipline = ability to follow through on decisions.
- Accountability = a way to make you stick with your plan.
- Knowledge + Discipline + Accountability = Peace of Mind



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An Unfortunate Truth

- The way our brains are wired gets in the way of our investing success and good financial decisions.
- We can have the financial knowledge, but the discipline and accountability are much harder to make happen.
- We have brains that can make logical decisions, but money is an emotional issue for most of us. And, emotions, feelings, and instincts are not always helpful for good financial decisions.



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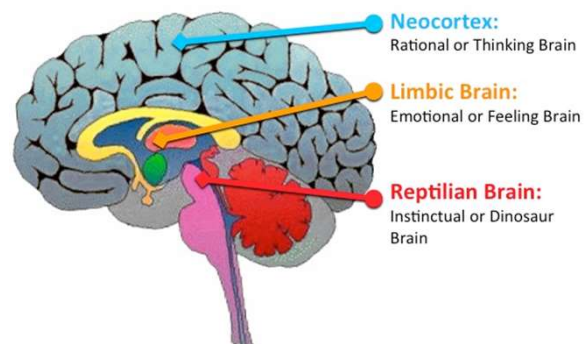
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Why is money difficult for us?

Our brains are wired to our financial disadvantage:

- 1.) **Reptilian brain:** brain stem.
- 2.) **Feeling brain:** limbic system.
- 3.) **Thinking brain:** neocortex.



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Why is money difficult for us?

Our brains are wired to our financial disadvantage:

- 1.) **Reptilian brain:** brain stem. Bodily functions. Automatic.
- 2.) **Feeling brain:** limbic system. Emotions. Reactions.
- 3.) **Thinking brain:** neocortex. Decisions. Problem solving.



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Trouble from the feeling brain

The **amygdala** in the limbic system is the control center of emotions.

- We get emotional.
- We follow our instincts.
- We think every problem has an answer.
- We take shortcuts.
- We are too influenced by others.



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We get emotional with money

Emotions can cause poor decision making.

Don't make a decision when angry, for instance. Don't impulsively react to fear or disappointment.

Step back, do something else, let some time pass, and make a list of pros and cons.



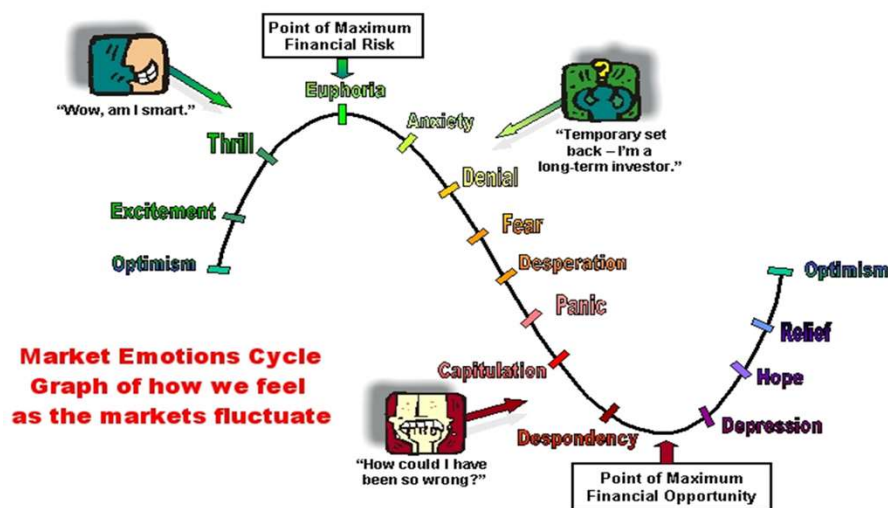
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We get emotional with money



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We get emotional with money

Remember that fear is one of the most basic emotions.

The fear of financial failure AND fear of physical harm *have the same response and effect in our bodies!*



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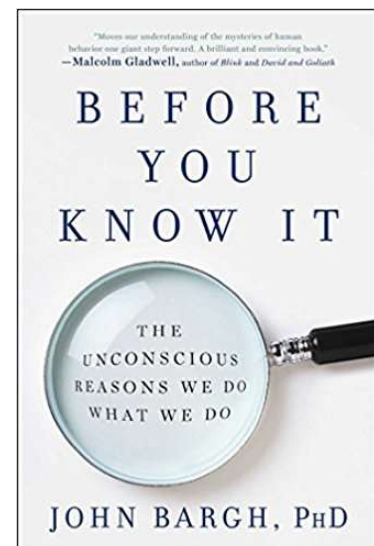
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We follow our instincts

Should we trust our gut with money decisions?

Bargh writes, “we tend to trust our gut reactions more than our rational ones because they happen so quickly we think they must be true.”

Instincts are good at life-or-death choices, but not financial decisions.



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We follow our instincts

One of our instincts is to act.

We have a built-in bias toward action.

We think it is wrong to just do nothing.

Yet, doing a whole lot of nothing is often exactly what long-term investing is all about. Sitting and waiting, often for years.



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We think every problem has an answer

Sometimes we think if we just do some more research or read another book or get another opinion, we will finally know what to do.

However, not every problem has a concrete answer.

There are many problems with no answer, and there are many problems with many correct answers.

We forget this and keep looking for answers, only to get overwhelmed.



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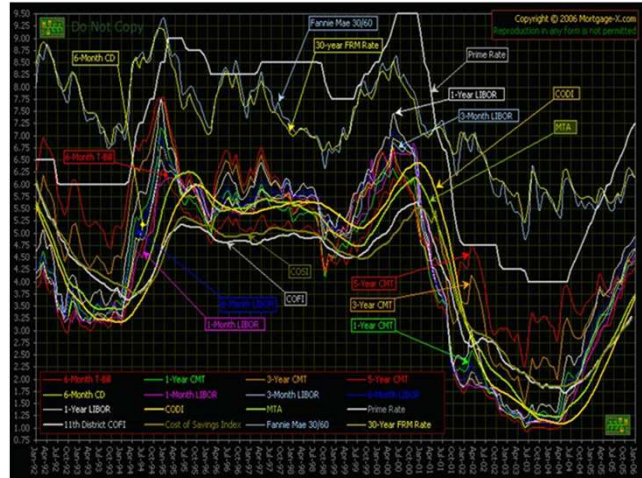
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We take shortcuts

We get overwhelmed by data, so we use shortcuts.

We can only analyze 5-9 variables, at a maximum.

This graph has so much information, that our brains immediately try to simplify it.



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We take shortcuts

Our brains burn 1/4th of the calories our bodies use each day.

Our bodies are always trying to get us to think less to conserve energy!

There is a biological reason we take shortcuts!



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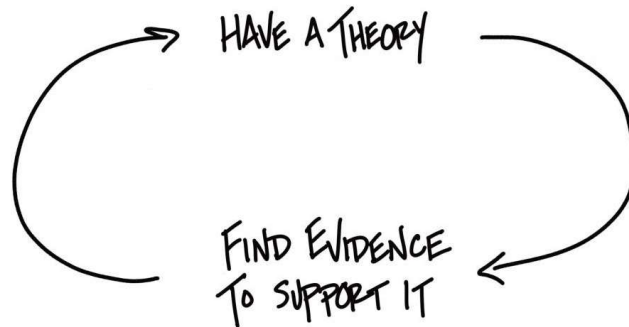
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We take shortcuts

We filter information and are biased to whatever confirms our preconceived ideas.

This is confirmation bias.



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Carl Richards



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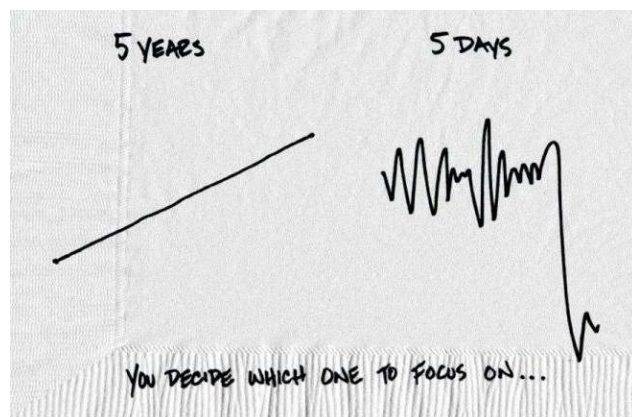
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We take shortcuts

We forget the longer past and are unduly influenced by recent results.

This is recency bias.



Carl Richards



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We take shortcuts

We go with what others are doing and thinking.

This is herding bias.

This is also an example of how we are too influenced by others.



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We're too influenced by others

- Our emotional brain tells us to play it safe by doing the same as our friends. We fear being left out.
- Our emotions cause us to lack confidence in our own ideas and place too much trust in the ideas of others.
- The financial news media uses our emotions to keep us entertained so they can sell advertising. They don't prioritize our best interests.



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The financial media uses greed

The investment entertainer Jim Cramer has used the following tag line for marketing his books, TV shows, and podcasts. He says...

“You Can’t Afford To Miss It!”



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The financial media uses fear

- It's a **blood bath** on Wall Street today!
- The financial markets are in **freak-out mode!**
- The company is **too big to fail!**
- The stock market is **crashing!**



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The media uses emotions

By appealing to our emotions, the financial media increases viewership and increases advertising revenue, but also causes us to make poor decisions.

Dr. Thaler and his student Werner De Bondt hypothesized in the 1980s that ***“people tend to overreact to unexpected and dramatic news events, driving stock prices out of whack.”***



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TV financial experts are often wrong.

Jim Cramer in March 2008 said that Bear Stearns was fine. 6 days later it was bankrupt.

Power Lunch said Lehman Brothers was “No Bear Stearns!”, but it was bankrupt 3 months later in 2008.

The Faber Report said Merrill Lynch had no need to raise additional capital but ran out of money 5 months later and was bought by Bank of America.



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Money trouble from the feeling brain

The **amygdala** is like kryptonite to good financial decisions. Its presence makes financial decisions harder to make dispassionately, without emotion.

- We get emotional about money.
- We follow our instincts with money.
- We think every money problem has an answer.
- We take shortcuts with financial decisions.
- We are too influenced by others' financial opinions and decisions.



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Achieving Peace of Mind



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1.) Knowledge

- Learn the basics of personal finances.
- Take classes.
- Listen to presentations by experts.
- Read.
- Research.
- Stay up on the news.



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2.) Discipline

- Think through your strategy at a "quiet time".
- Write down your strategy and commit to it.
- At times of high emotion, stick with your strategy.

Success in investing doesn't correlate with I.Q. Once you have ordinary intelligence, what you need is the temperament to control urges that get other people into trouble in investing.

Warren Buffett



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2.) Discipline



Dr. Richard Thaler, University of Chicago Nobel Prize in Economics

- 1.) Two types of people: economists and humans.
- 2.) The humans think like humans, economists don't! Ha ha!
- 3.) Humans are impatient, inconsistent, and distracted by irrelevant factors.
- 4.) Financial behavior is largely a problem of self-control.



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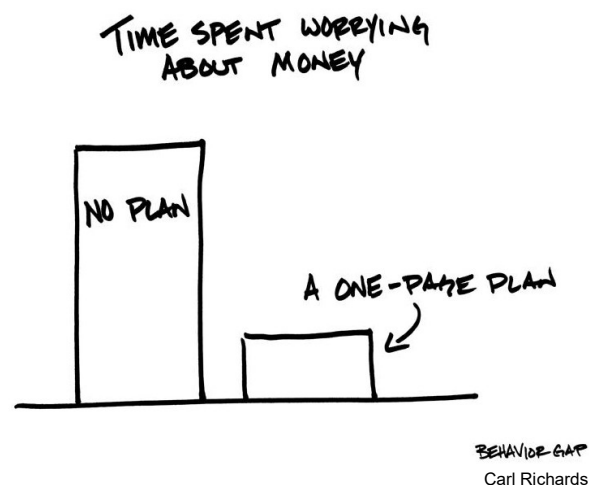
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2.) Discipline

A written plan improves discipline. And even a short written plan will decrease worry.

Less worry equals more peace of mind.



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3.) Accountability

- A person. A friend, a spouse, or an advisor.
- A plan. A written plan that is specific.
- A process. A method or system that holds you to your plan.
- Your financial plans have the highest likelihood of success if you use all three of these.



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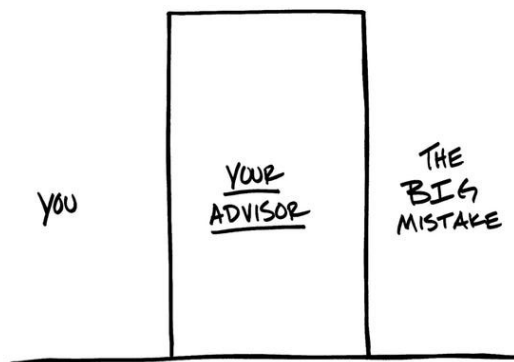
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3.) Accountability: a person

A friend, spouse, or advisor can stand in the way of a big mistake.



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3.) Accountability: a plan

- What are your financial goals?
- How much should you save each year?
- How much should you spend each year?
- How much risk should be in your investment portfolio?
- What mix of investments will you use?
- When will you rebalance your investments?



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3.) Accountability: a plan

- What will you do in a bear market?
- What will you do in a bull market?
- What amount of emergency funds will you have available?
- How will you use insurance to manage catastrophic risks?
- HANDOUT: Financial Plan on 1 page



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3.) Accountability: a process

- Can you think of systems that will help you stick with your financial plans?
- Example: automatically save money from every paycheck.
- Example: automatically invest and rebalance a portfolio.
- Example: automatically pay bills.
- Example: use cash instead of credit cards.
- Example: use an envelope system of cash each month.



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Achieving Peace of Mind



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Questions?

I hope this presentation will help you move closer to having peace of mind about your money and your future. Feel free to contact me and ask me questions.



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Thank you!

Contact me for a free meeting.

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Eclectic Associates' Mission:

To help our clients achieve peace of mind about their money and their future.



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"Ask First!"

This form is to be filled out by any person who is offering legal, financial, retirement, insurance, accounting, estate, long-term care or similar planning services. Respond to **ALL** categories completely; sign and date at the bottom of the page.

MY EDUCATION- I have achieved the following level of education (check HIGHEST level achieved):

Some High School	Some College
GED	Bachelors Degree - Econ w/ math minor (Occidental)
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MY CREDENTIAL(S)- I have the following specialized credential(s) and training:

CFP® – Certified Financial Planner. I have worked as a financial planner since 2003. I am a member of the Financial Planning Association (FPA) and the National Association of Personal Financial Advisors (NAPFA), and I am required to complete continuing education each year.

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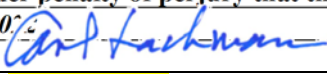
TRUE – In our business relationship, I am legally held to the fiduciary standard, so I will put your interest before my interests and those of my employer.

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HELP designed the "ASK FIRST" form

Providing the Essentials for Your Financial Peace of Mind

At Eclectic Associates, we offer the essentials of financial planning and we don't make promises that we can't back up. Instead, we provide experienced advice and a comprehensive plan to help give you clarity and the freedom to enjoy the rest of your life.

How We Help

- **We are fee-only.** We don't accept commissions and we don't sell products. We get paid only by you.
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- **We are experienced.** We have been in the business of financial planning since 1984.

Who We Help

- **Pre-retirees** who realize that retirement is finally "real" and it's **time to get serious about the future.**
- **Retirees** who want to make sure that they are **not going to outlive their money.**
- **Investors** who are **anxious about their portfolio** and are unsure if their current advisor is really helping them.
- **Business owners** who want to **protect their livelihood and their family** from the risk and volatility of their company.
- **Professionals** who are **changing jobs** and have to determine what to do with their prior company's 401(k) plan.
- **Widows and widowers** who are facing **major changes** in their financial situation.
- **People who have received a windfall**, such as an inheritance or property sale, and **want help optimizing it.**

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Schedule a 15-Minute Call

Let's see how we can help you achieve peace of mind about your money and your future. Schedule your complimentary call today: www.eclecticassociates.com.



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- Medicare evaluation
- Estate planning
- Charitable giving

The Value of an Advisor

FINANCIAL PLANNING

When you work with a fee-only financial advisor, you want to know you're getting your money's worth. So what does an advisor do that you can't do on your own? How can a financial advisor do more than one of those automated online investment programs? In two words, *financial planning*. A fee-only financial advisor won't limit their assistance to your investments, and that's because your financial well-being goes beyond investments.

HOW AN ADVISOR CAN HELP YOU



GOALS-BASED SERVICE

A financial advisor will make your goals the foundation for all the financial planning they do for you.



KEEPING YOU ON COURSE

It's easy to get sidetracked. A financial advisor will help you stick to your plan.



EXPERIENCE

Sometimes you don't know what you don't know. The expertise of an advisor will help you see directions for your money that you might have missed.



COMPREHENSIVE FINANCIAL PLANNING

We will help you thoroughly plan for your needs, addressing areas that may include investments, retirement, taxes, wills and inheritance, college funding, and insurance, just to name a few.



TRANSITIONS

Whether you receive an inheritance or are ready to retire, an advisor can help you make wise financial decisions about your future.



BEHAVIORAL COACHING

People can panic when markets drop. An advisor can provide a consistently calm, rational influence.



MILESTONES

An advisor can lend their expertise to make events like buying a first home or funding your children's future college education as stress-free as possible.



INVESTMENT GUIDANCE

Other investment programs may manage your portfolio, but an advisor can provide guidance about the tax and other impacts of your investment decisions.

And perhaps the biggest potential benefit of working with an advisor? **PEACE OF MIND**. When you know an experienced professional is looking out for your best interests day in and day out, you can feel free to focus on the rest of your life. We think that kind of confidence is invaluable.

The Value of an Advisor

INVESTMENT MANAGEMENT

When you work with a fee-only financial advisor, you are putting an immense amount of trust in them. And that trust should pay off. Yet much of the work we do as financial advisors is intangible, making value difficult to quantify. However, Vanguard did just that.

In *Putting a Value on Your Value*, Vanguard estimated that advisors using the best practices in the chart below add about 3% in net returns for their clients. Keep in mind that every client's situation is unique, so this number won't apply to everyone. But we think it gives a reasonable foundation for quantifying the value that we offer as financial advisors.

VANGUARD QUANTIFIES THE VALUE-ADD OF BEST PRACTICES IN WEALTH MANAGEMENT

STRATEGY	TYPICAL VALUE ADD FOR CLIENT (BASIS POINTS)
Suitable asset allocation using broadly diversified funds/ETFs	> 0 bps*
Cost-effective implementation (expense ratios)	40 bps
Rebalancing	35 bps
Behavioral coaching	150 bps
Asset location	0–75 bps
Spending strategy (withdrawal order)	0–110 bps
Total-return versus income investing	> 0 bps*
Total potential value added	About 3% in net returns

*Value is deemed significant but too unique to each investor to quantify.

Source: Francis Kinniry Jr., et al, *Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha*, August 2016.

THE INTANGIBLES COUNT TOO

Some things cannot be reduced to a number yet are still important. Things like peace of mind because you have someone looking out for your best interests. Or the clarity that comes with an advisor who helps you make informed decisions. Or the confidence that you feel with an experienced professional managing the details of your wealth day in and day out.

These things may be subjective, but for many of our clients (and maybe you too), they are invaluable.

Feel confident that a professional is managing the details of your wealth.

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