



It's Your Money, Class 6: Financial Planning II

Can you achieve peace of mind?

Carl Lachman, MBA, CFP®



1

Do you have peace of mind about
your money?

Yes or no?

Why not?



2

2

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.



3

3

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.



4

4

Agenda

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



5

5

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.*



6

6

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.



7

7

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.



8

8

Week 1: Tax Update

- If possible, take gains at 0% rate. Take losses for tax reasons.
- High standard deduction through 2025.
- Medical expenses only deductible if exceed 7.5% of AGI.
- Unified estate tax exclusion is \$12,060,000 through 2025.
- Can make gifts of up to \$16,000 without filing gift tax form.
- Can directly pay medical bills or tuition for others with no limit.
- Maybe file IRS form 706 at first death for estate exclusion portability.
- Inherited retirement accounts stretched by spouses & minor children.
- Property tax transfers age 55 and over, plus children if their principal home.



9

9

Week 2: Financial Planning I

- 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?



10

10

Week 3: 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?



11

11

Week 3: Caregiver Ideas

- Caregiver ideas from Gincy Heins.
- Caregivers need to look out for themselves, too.
- Keeping the brain active later in life should be a priority for everyone, even if one already has some cognitive decline.



12

12

Week 4: 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.



13

13

Week 5: 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.



14

14

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.



15

15

Peace of Mind Ingredients



16

16

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



17

17

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.



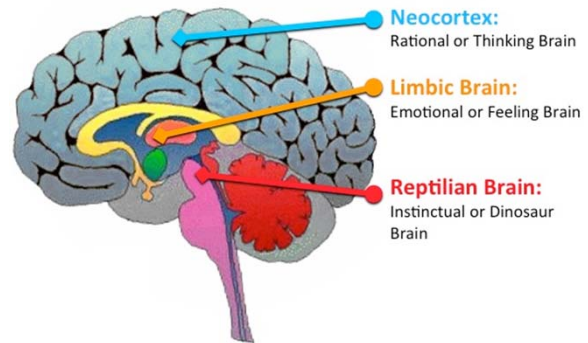
18

18

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.



 eclectic
ASSOCIATES

19

19

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.

 eclectic
ASSOCIATES

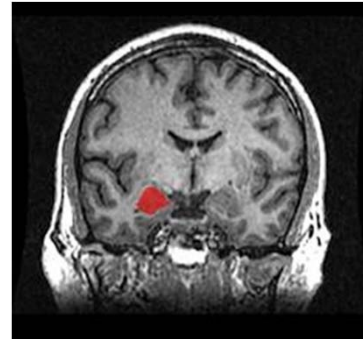
20

20

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.



21

21

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.

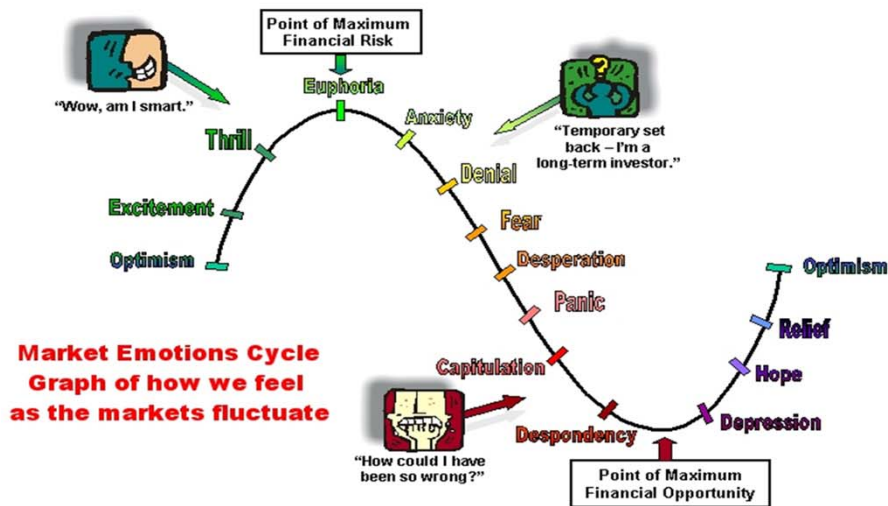
Step back, do something else, let some time pass, and make a list of pros and cons.



22

22

We get emotional with money



 eclectic
ASSOCIATES

23

23

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!*

 eclectic
ASSOCIATES

24

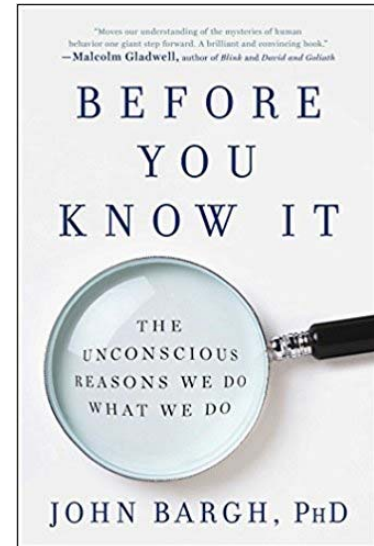
24

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.



25

25

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.



26

26

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.



27

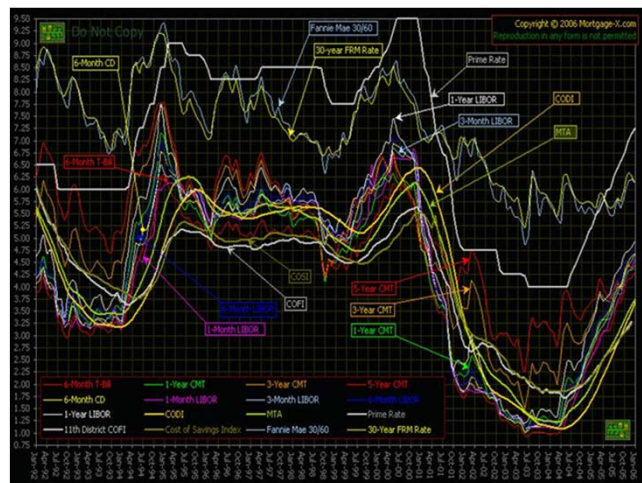
27

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.



28

28

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!



 eclectic
ASSOCIATES

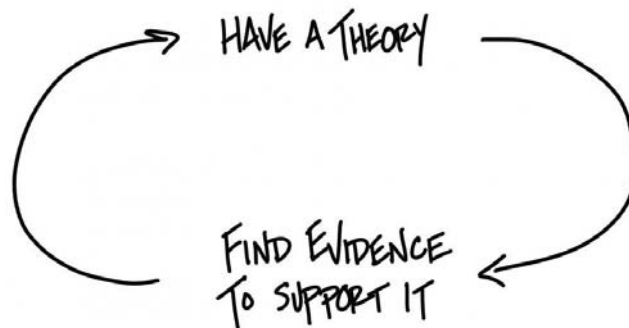
29

29

We take shortcuts

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

This is confirmation bias.



BEHAVIOR | GAP
Carl Richards

 eclectic
ASSOCIATES

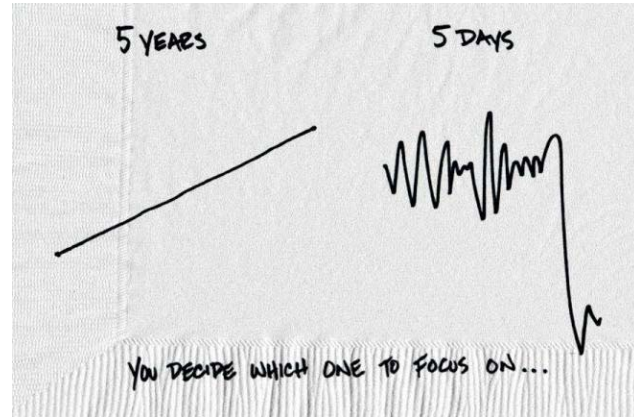
30

30

We take shortcuts

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

This is recency bias.



Carl Richards



31

31

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.



32

32

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.



33

33

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!”



34

34

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!**



35

35

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.”***



36

36

Financial media 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.



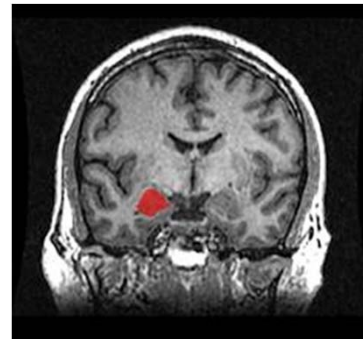
37

37

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.



38

38

Achieving Peace of Mind



39

39

1.) Knowledge

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



40

40

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



41

41

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.



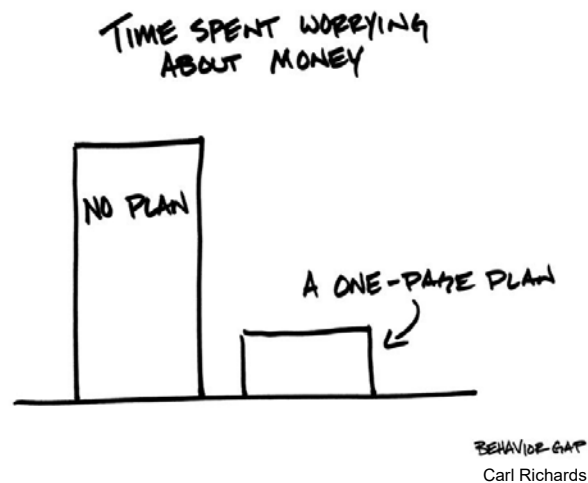
42

42

2.) Discipline

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

Less worry equals more peace of mind.



 eclectic
ASSOCIATES

43

43

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.

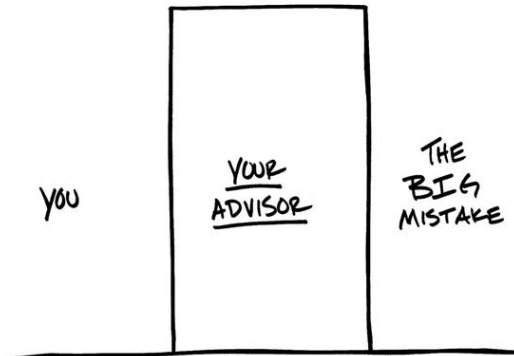
 eclectic
ASSOCIATES

44

44

3.) Accountability: a person

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



BEHAVIOR GAP
Carl Richards



45

45

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?



46

46

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?



47

47

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.



48

48

Achieving Peace of Mind



49

49

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.



50

50

Thank you!

Contact me for a
free meeting.

Carl Lachman, MBA, CFP®
Vice President

Eclectic Associates

1440 North Harbor Blvd, Suite 220
Fullerton, CA 92835

714-738-0220

clachman@eclecticassociates.com



51

51

Eclectic Associates' Mission:

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



52

52

Carl Lachman, MBA, CFP®
Vice President
714-738-0220

clachman@eclecticassociates.com



Call or email me for a free meeting.

