

It's Your Money

Financial Planning I

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Agenda

- What is Financial Planning?
- 6 Steps of Financial Planning
- What is a Financial Planner?

What is Financial Planning?

- Financial Planning involves looking at your entire financial picture and advising on how to achieve your short and long-term financial goals
- It is helping you understand where you are today, prioritizing your goals, and creating a roadmap to get you where you want to be

What is Financial Planning?

- Developing a savings/spending plan that allows you to live your life with less anxiety.
- Will your money outlive you or will you outlive your money?



Dove Capper

“Can you increase its range?”

CartoonStock.com

While no one can predict where the stock market will be in 1, 5, 10+ years, financial planning can help guide and provide more clarity about your financial future.

What is Financial Planning?

- It is an ongoing process, not a product
- Are you protected against the 5 key risks in retirement?
 - *Withdrawal*: How are you withdrawing income in retirement?
 - *Healthcare*: What is your contingency plan if your health declines?
 - *Inflation*: Will inflation impact your purchasing power?
 - *Longevity*: Will your money outlive you, or will you outlive your money?
 - *Market Risk*: Are you taking too much risk or too little risk?

6 Steps of Financial Planning

1. Gathering Data
2. Identifying Your Goals
3. Analyze & Evaluate
4. Develop a Financial Plan
5. Implement the Financial Plan
6. Monitor Progress

6 Steps of Financial Planning

Step 1: Gathering Data

- *Income*: Employment, Social Security, Pension, Alimony, Annuities
- *Expenses*: Mortgage/Rent, Utilities, Food, Clothing, Car Payments, Insurance, Entertainment, anything you spend money on a regular basis

$$\text{Income} - \text{Expenses} = \text{Cash Flow}$$

- *Assets*: Home, Rentals, Brokerage & Retirement Accounts, Collectibles
- *Liabilities*: Mortgage, Car Payments, Credit Card Debt

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

6 Steps of Financial Planning

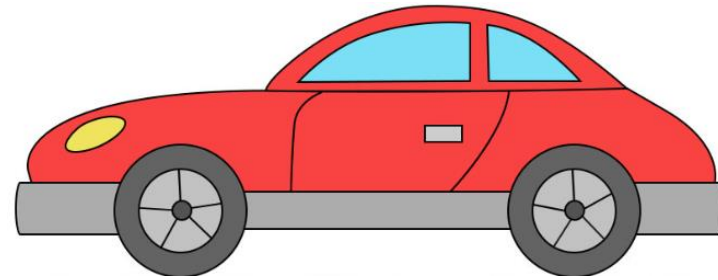
Types of Assets



Wealth-Creating Assets

Possessions that generally increase in value over time or provide a return are called wealth-creating (appreciating) assets.

Examples: stocks, bonds, real estate



Depreciating Assets

Possessions that decrease in value over time are called depreciating assets.

Examples: cars, televisions, computers, furniture

6 Steps of Financial Planning

Types of Liabilities



Wealth-Creating Debt **“Good Debt”**

Loans used to buy assets that generally increase in value over time or provide a return are called wealth-creating liabilities.

Examples include home loans, business loans, real estate asset loans, and student loans



Other Debt **“Bad Debt”**

Loans for purchases that decrease in value over time are expensive from the interest paid on the loans. The asset usually ends up having little to no value compared to the purchase price and interest paid.

Examples include loans for autos, furniture, computers, and other personal items.

6 Steps of Financial Planning

Step 2: Establish Goals

■ Broad vs Specific Goals:

- *Broad*: I would like to travel a lot in retirement
- *Specific*: I will need \$15,000/yr for the next 15 years to travel

■ Personal vs Financial Goals:

- *Personal*: Spend time with grandchildren
- *Financial*: I will need \$250/mo to spend on the grandchildren for the next 10 years

6 Steps of Financial Planning

Step 2: Establish Goals

- Short-Term vs Long-Term Goals:
 - Short-Term: Goals you would like to accomplish within the next few years
 - Long-Term: Goals you would like to accomplish 3+ years
- Negotiable vs Non-Negotiable Goals:
 - It would be nice to accomplish vs I need to accomplish

6 Steps of Financial Planning

Step 3: Analyze & Evaluate

- Use the information from steps 1 and 2 to analyze your current situation
- Does your cash flow and net worth allow you to accomplish your goals?
 - If not, we may have to revisit your expenses, goals, or your tolerance for risk



"I'm not interested in minimum risk. I want long term gains without risk."



6 Steps of Financial Planning

Risk Tolerance vs Risk Capacity

- Being able to sleep at night vs the amount of risk you must take to accomplish your goals
 - Are you more concerned with potential losses in your portfolio or missing out on opportunities?
 - How have you handled risk in the past?
 - ❖ What did you do in 2000? 2008? Or in March 2020?
- Too much risk could knock you off track, but too little risk could leave you short of your goals

6 Steps of Financial Planning

Risk Tolerance vs Risk Capacity

- Too much risk could knock you off track, but too little risk could leave you short of your goals
- Assess your risk level to help maximize your potential returns while minimizing the chance that you won't accomplish your goals.

6 Steps of Financial Planning



Estate Planning

- Trusts, Wills, Power of Attorney, Advance Healthcare Directive
- What would have happened if you passed away yesterday?



"While yes, your will is beautifully written, I'm afraid a few of the estate laws may have changed since 1942."

6 Steps of Financial Planning

Insurance (Risk Transfer)

- Paying a small known amount to cover an unforeseen liability
 - Umbrella Policy
 - Homeowners
 - Rental
 - Car
 - Life
 - Health

6 Steps of Financial Planning

Step 4: Develop a Financial Plan

- Take all of the information and analysis from Steps 1-3 and develop an actionable plan
 - This will lead to your target investment allocation
 - Build your investments around your financial plan, don't build your financial plan around your investments
 - Your investment strategy should balance risk and reward by utilizing many asset classes and categories: such as equities (stocks), fixed income (bonds), and cash

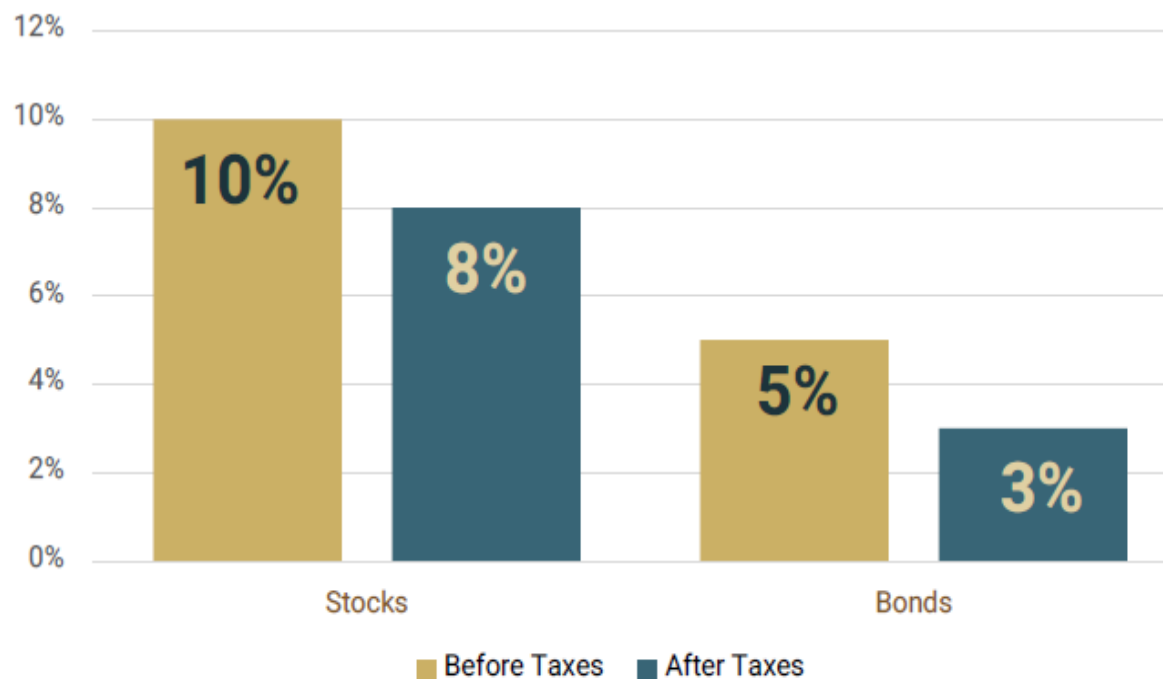
6 Steps of Financial Planning

Step 5: Implement the Financial Plan

- Most important step, take action
- Examples of implementation:
 - Reduce spending to pay off debts, adjust spending to accomplish goals
 - Open up brokerage/retirement accounts, consolidate accounts
 - Verify cost basis before placing trades to adjust your investments according to the plan
 - Setup an emergency fund
 - Increase/decrease insurance
 - Establish or review trust, visit an estate planning attorney
 - Adjust investments to make them more tax-smart

6 Steps of Financial Planning

How are you making the most of tax-smart investment management techniques?



This chart is for illustrative purposes only and does not represent actual or future performance of any investment option. Returns include the reinvestment of dividends and other earnings. Stocks are represented by the Ibbotson Large Company Stock Index. Govt bonds are represented by the 20-yr US gov't bond, cash by the 30-day US Treasury bill, and inflation by the Consumer Price Index. The data assumes reinvestment of income and does not account for transaction costs. An investment can't be made directly in an index. Taxes Can Significantly Reduce Returns data, Morningstar, Inc. 10/1/17.

Tax-Smart Investing

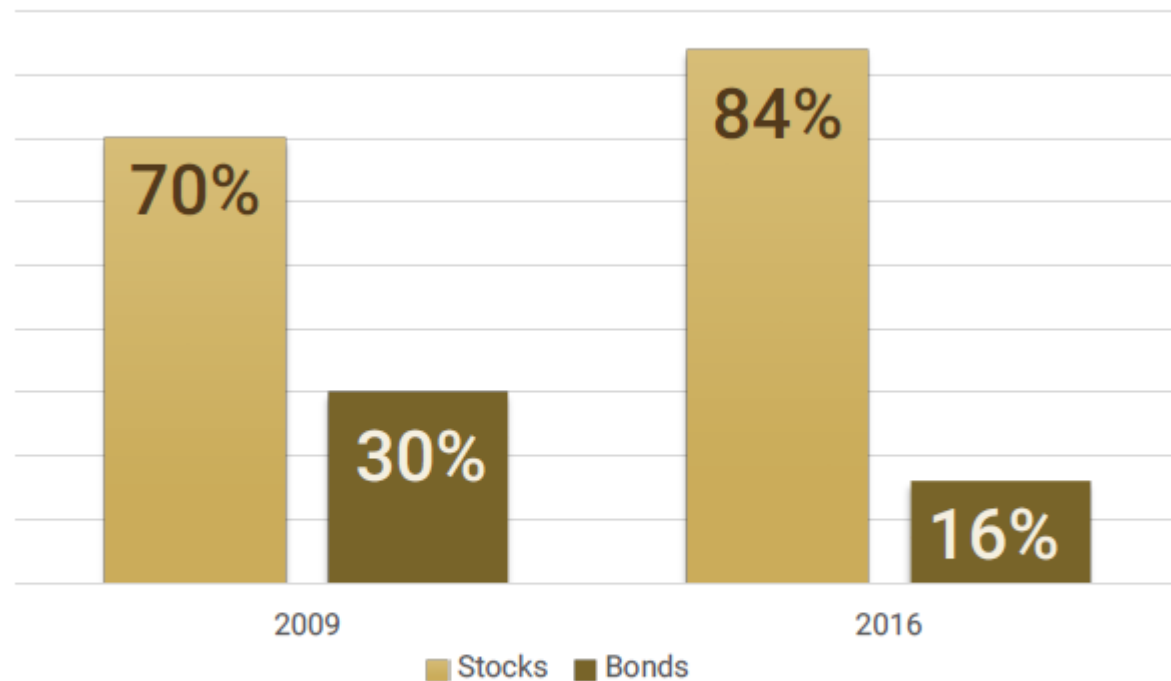
- Where and when to take withdrawals in retirement?
- Average investors lose 2 % of their return to taxes from improper tax planning
- How do we refrain from paying more than we need to in taxes?
 1. Tax-Deferred Strategies: 401ks, 403b, 457, IRAs
 2. Tax-Free Strategies: Roth IRAs, HSAs, 529 Plans, QCDs
 3. Tax-Smart Security Selection: ETFs vs MFs
 4. Asset Location: Which investment vehicle to hold investments?
 5. Managing Your Winners/Losers: Tax-Loss Harvesting to offset winners/losers

6 Steps of Financial Planning

Step 6: Monitor Plan

- Review financial plan on a regular basis to update retirement projections and goals
- Discuss any changes to your goals and budget
- Rebalance investments – avoid portfolio drift

Effects of Not Rebalancing Over Time



The chart's hypothetical illustration uses historical monthly performance from Jan 1996 to Dec 2016 from Morningstar/Ibbotson Associates; stocks are represented by the S&P 500 Index and MSCI EAFE Index, bonds are represented by the Bloomberg US Govt. Credit TR Index Value Unhedge, and US 30-day T-bills. Chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

What is a Financial Planner?

- All Financial Planners are Financial Advisors, but not all Financial Advisors are Financial Planners
- Financial Planners help clients create a roadmap and advise on how to reach their short, intermediate, and long-term goals. They may offer broad financial advice or specialize in an area such as investments, taxes, retirement, or estate planning
- Financial Advisors advise people on their finances and manage investments

What is a Financial Planner?

- How can a Financial Planner help you?
 - Advise and work with you to create your tailored financial plan
 - Create a diversification plan from concentrated stock positions
 - Create an investment plan
 - Monitoring your investment accounts and financial plan- take action when needed
 - Implement tax-smart investment strategies
 - Make introductions to other professionals

What is a Financial Planner?

- Conduct your own due diligence
- Are they held to a fiduciary or suitability standard?
- What qualifications do they have to be able to help you?
 - Are they a **CERTIFIED FINANCIAL PLANNER™** (CFP®) or a **Chartered Financial Consultant®** (ChFC®)?
- How long have they been in the industry?
- What services do you provide?
- What is your investment philosophy?



“I don’t want to worry you, but the guy who delivered the pizza is your financial planner.”

What is a Financial Planner?

Compensation Structures:

- Fee-Only
- Fee-Based
- Hourly/Project Based
- Commission

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Thank you for attending!

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