

Creating And Preserving Wealth Through Financial Planning

An interview with Bruce White MS CFP™

Q: Why did you choose the theme, Creating & Preserving Wealth Through Financial Planning?

A: I chose this title to emphasize the two separate phases involved in building financial security. Basically, the “Creating” part of financial planning deals with the psychology of saving and the economics of wise investing... While the “Preserving” part deals with protecting our standard of living against all the things that threaten our assets:

These could be:

1. Inflation
2. Income and estate taxes
3. Nursing home costs
4. Permanent disability ...and so on.

Q: So, essentially, you’re saying we have two financial tasks before us: We must grow our assets, the creating part, and we must preserve those assets. What about the rest of the title?

A: The “Through Financial Planning” part of the title addresses the fact that it is no longer wise to rely on the government or a lifelong employer to provide our financial security.

I think we all realize that Social Security is uncertain. It’s risky to bank on being with any one employer long enough to get a monthly pension.

Plus, our increasing life expectancy means the risk of outliving our savings is higher. The bottom line is, responsibility for our financial independence now rests in our hands.

As a result, financial planning is no longer an optional “wouldn’t-it-be-nice” type of exercise. I know that those individuals who engage in timely and consistent financial planning will greatly increase their odds of achieving long-term financial success.

The problem is that few people have the time, interest or ability to do it...that’s where I come in.

Q: I notice that you have a degree in Economics, as well as a Master's degree in Financial Planning and that you are a Certified Financial Planner. Can you talk about what these credentials mean to your clients or to potential clients?

A: First of all, let me say that of the over 600,000 individuals employed in the various areas of financial services, only 40,000, or about 12%, have earned the Certified Financial Planner designation. I think the public should also be aware that the CFP professional designation assures a client the highest level of accountability.

Basically, the level of accountability you would expect from a CPA or medical doctor. Regarding the M.S. in Financial Planning, it's an applied degree where all types of advanced financial planning situations are studied, involving:

- o Retirement
- o Taxation
- o Estate Planning and, of course,
- o Investment portfolio analysis.

I am very pleased to be able to say that I apply every bit of this formal training on a day-to-day basis in my practice.

Q: I see that relatively few individuals countrywide have earned the M.S. in Financial Planning. That puts you in quite an exclusive group, but isn't experience important also?

A: Absolutely.
The right academic background gives the financial advisor that crucial structure of knowledge. But, it's when formal training is added to experience and business instinct that the financial planner, in my opinion, can really be of value to the client.

I've been a business owner and financial planner since 1981. With my experience I've seen just about every possible client situation many times over.

Q: These client situations you refer to.... could you give me some examples?

A: Well, they could involve, for example:

1. The rollover of retirement accounts.
2. The death of a spouse.
3. Investing an Inheritance.

Or something I'm seeing more of lately....

4. How to diversify a large employer stock option position.

Q: Can you give a sample of the problem areas you come across when reviewing a client's financial data?

A: There are about ten problem areas that seem to always show up. Let me give you three examples of the more serious ones:

1. The first relates to what I call the catastrophic risks – any one of which, in a heartbeat, could destroy our financial security. These are often not covered at all or they are poorly insured, for example, a major lawsuit from an auto accident, earthquake, long-term disability, premature death, nursing home costs, etc.
2. Another big problem, that I see, is long-term retirement assets are often invested too conservatively. What happens is these crucial assets barely keep up with inflation and never grow in terms of real purchasing power.
3. The last but not least relates to paying taxes: Even though there are many ways to minimize or eliminate income taxes, clients, whether still working or retired, unnecessarily pay income taxes on their invested assets. The same is true of those whose estates are large enough where they would have a federal estate tax problem in the event of their death.

There is no reason to pay taxes if estate planning is done correctly.

Q: Since investing is an important part of financial planning, how would you describe your investment philosophy?

A: That's an important question and let me start by saying that any sound investment plan must be tailored to the specific needs and objectives of each client. This custom building of the investment portfolio is particularly crucial during the retirement phase of investment planning.

Personally, I'm relatively conservative when it comes to client investments and I encourage clients to develop reasonable expectations rather than chasing higher returns with higher risks.

In a nutshell, I try to emphasize a basic, understandable approach to investing for long-term goals, such as retirement.

Q: Are there specific guidelines you go by when recommending investments?

A: Sure.
The first rule is that the investment must provide peace of mind to the client. It could

be the greatest investment ever created, but it fails miserably if it doesn't meet this "peace-of-mind" test.

The second rule is that the portfolio should be structured to encompass all the different methods by which a portfolio can be diversified.

Not only will this diversification achieve the desired investment returns on a more even keel basis, but just as important, it will provide that crucial peace-of-mind to the client.

Q: What kind of important client concerns should a financial planner be addressing?

A: Good question.

Let me give you a sampling of some of the more important issues:

One issue would be, when could you comfortably retire? Or, if you are already retired, how much can you safely spend without running out of money?

A second issue would be how to pay minimal taxes on your investment portfolio. If you are a business owner, how to get tax-free or tax deferred dollars out of the business.

Another common and very important issue is how to optimally invest and distribute lump sum payouts from retirement plans.

And lastly, there are many issues that come up when helping a client through the difficult economic transition after the death of a spouse.

Q: A recent study done by the International Association For Financial Planning identified five barriers that keep people from seeking objective financial advice. Can you highlight some of the major ones?

A: Sure.

The first barrier, is the fact, that we often have a false sense of financial security. As human beings we don't have any inherent sense of when our financial affairs are not in order. Or, in other words, when we are at great financial risk.

Basically, there is no biological equivalent of pain to tell us to call for help. The result is important financial planning issues go undiagnosed.

By the time we realize there's a real problem, the damage is done - and it's often too late to do anything about it.

Q: As I recall, another barrier had to do with a false sense of ability or knowledge. It seems to me that the media plays a role in this one?

A: Definitely. Very often we aren't candid with ourselves regarding our ability or knowledge of financial planning. Whether it is retirement or estate planning, taxation or investments.

Basically, I think pride gets in the way, or we simply don't realize what we don't know.

The media seriously encourages this false sense of knowledge by telling everyone that financial planning is really a do-it-yourself type of activity.

If you listen to the media, all you have to do is read snippets in the business pages or Money magazine and you're an instant expert. We wouldn't practice medicine on ourselves after reading an article in Time Magazine, so why financial planning?

Yet people practice on themselves all the time.

I should say, malpractice on themselves and they don't even know it.

Q: What about the fear that people have of not choosing the right advisor? Isn't this a big concern as well?

A: No question.

It's obviously a major concern.

Once people realize it's wise to seek outside financial advice, the issue then becomes the fear that they may not find an advisor who is both trust worthy and competent.

Finding that crucial combination of trustworthiness and competence in one human being is not easy, whether seeking a doctor, an auto mechanic, dentist or a financial planner.

Q: Before we close, do you have anything else you'd like to add?

A: I want to emphasize that the CFP designation assures the client the highest level of professional accountability. Plus, my years of experience and my formal training:

- B.A. in Economics
- M.S. in Financial Planning
- Certified Financial Planner designation
- Thirty years running my own business

All of these allow me to be a very valuable resource to my clients.