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the navigator

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Investing Without Goals is a Bad Idea

by A. Scott White, CFP®, ChFC, CLU

Sometimes I am approached by well-intentioned people who tell me they are disappointed in the investment advice they have been receiving and would like to transfer their investment accounts to me to see how my advice works out for them. When I ask if they have a comprehensive financial plan that identifies their investment goals with a timetable to reach them, they often tell me they are not interested in all that—they simply want me to make them some money. To which I reply, "You might be better off working with your current advisor." And I mean that sincerely. Because in my mind, the advisor they are currently working with must be as misguided as the person requesting the investment advice.

How in the world can a competent advisor advise a client on how to invest money if the client doesn't know how much money is needed, and when it is needed? If those questions can't be answered, how can an investor possibly measure investment results? "Let's try it out for a few months and see how it goes" is not an investment goal. If monthly statements show an increasing account balance, is that good, or if monthly statements show a decreasing account balance, is that bad? That kind of thinking is preposterous.

Most financial institutions publish monthly statements using dollar weighted returns, instead of calculating returns on a time weighted basis. One of the most common mistakes an investor makes when evaluating investment performance is using dollar weighted returns, because they shed little light on an investment's performance when money is deposited or withdrawn from the investment account. Looking at a monthly balance without being able to measure its contribution to achieving an investment goal is similar to measuring the emotional state of an investor. And an investor's emotional state is easily manipulated by some of the world's best salespeople—with sizzling investment stories about a new product that could change the world or an economic forecast only they can see because of their superior research. Come on, why don't they just tell the investor they have a magic crystal ball that can see what will happen in the future?

The attitude of "let's just see how the investments pan out" without defining a time frame or goal completely ignores investment risk. I'm not talking about the ill-suited risk profile questionnaire many financial advisors use to determine an investor's "appropriate asset allocation." In reality, those questionnaires really measure how an investor *feels* at the moment. If accounts go down in value, an investor will *feel* more risk averse, and when account values go up, an investor using the questionnaire will *feel* more risk tolerant. Based on that, should an investor change the portfolio? That would mean that when portfolios increase in value, the investor should be more aggressive, and when accounts start dropping in value, the investor should change the portfolio to be more risk averse. Why doesn't the financial advisor using these questionnaires just come out and tell the investor, "We'll buy high and sell low," because that is a highly probable result.

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Investing Without Goals is a Bad Idea

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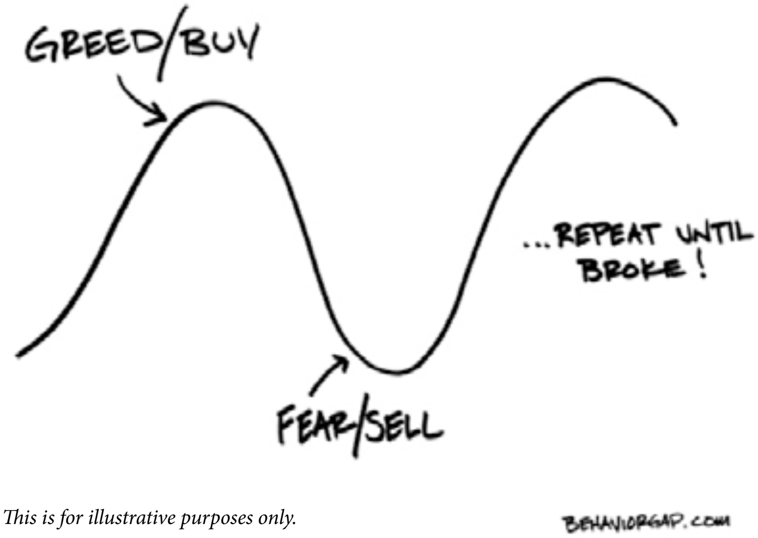


This is for illustrative purposes only.

But the risks I'm taking about are the *real* risks of investing. These include being forced to sell an investment when it is worth less than the price you bought it for, constructing a portfolio that is not properly diversified, and market risk, exchange rate risk, purchasing power risk, business risk, default risk, interest rate risk and sector risk.

While most investors might know how these risks could impact investment returns, there are many other risks that competent financial planners take into account to assess their possible impact on achieving specific investment goals. Some of those additional risks include foreign securities risk, political risk, regulatory risk, duration risk, liquidity risk, diplomatic risk, credit risk, counterparty risk, custody risk and lack of information risk.

All of the non-market risks can be eliminated or controlled to an acceptable level in a well-designed portfolio built to reach specific goals within a specific time frame. But I couldn't create a well-designed investment portfolio without knowing how much a client is trying to accumulate by an identifiable date. To me, this is essence of investing. Otherwise, one is simply asking me for investment advice based on events that may or may not happen, like a presidential election outcome. That is not investing. That is speculation!

At Scott White Advisors, we begin a relationship by assessing our client's financial condition, and set goals with time frames. Then we develop and implement a strategy to meet those goals and regularly review the results to adjust the strategy or the implementation as circumstances dictate. This process results in identifying and evaluating which risks could affect the probability of meeting our client's goals. It allows us to design clear objectives for the investment portfolio to show how the investments are expected to help meet goals. Then we are able to create a written investment strategy to meet each client's needs—an Investment Policy Statement.

The principal reason for developing a written Investment Policy Statement is to protect an investor from unplanned and impulsive revisions to a sound investment strategy during a time of market turmoil. In times of market turmoil, investors are often inclined to make investment decisions that are inconsistent with prudent investment management principles—and their own best interest.

So when an investor approaches me about investing and does not want to go through a comprehensive financial planning process, I usually suggest they keep doing what they are doing. Without a comprehensive process and goals, I would be no better at speculating on future events that may or may not happen in building a portfolio than the advisor they are currently using.

However, if an investor wants to meet with me and discuss not only life goals and a time frame to reach them, but all the other things that go into a comprehensive financial plan, then I just might be the right financial planner for that investor. A comprehensive financial plan will include creating a plan for the family if the investor dies or becomes incapacitated. It will examine appropriate strategies to minimize the erosion of investments through credible tax planning, examine property and causality coverage for gaps and loopholes, or title investment accounts to minimize creditors' and scammers' access to the family fortune. Our plan will also maximize Social Security and retirement plan benefits, and include ways to create a legacy— to let the world know the investor once existed on this planet and what they stood for. Because if these things are important to an investor, then I am confident I can help to design an investment portfolio that has a better chance of achieving the investor's goals. ■

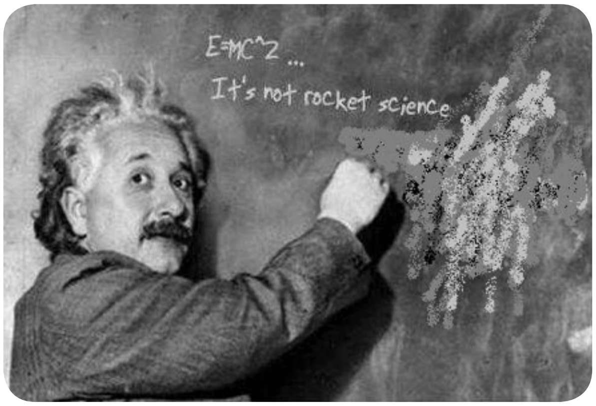
Preparing for Incapacity is Not Rocket Science

by A. Scott White, CFP®, ChFC, CLU

When we think about estate planning, typically we think about legal documents—not planning for incapacity. But that area of planning is frequently overlooked. After we finish executing all our legal documents with a qualified estate planning attorney, we may assume our estate planning is complete. But as important as a durable power of attorney document is, how will that document help if you are unable to care for yourself because you are recovering from fractured bones as a result of a fall, or you cannot distinguish between your comb and a toothbrush because you are suffering from Alzheimer's disease, or you are recovering from a stroke and need assistance to take a bath and get dressed?

Frequently our spouse is there to assist us in situations like these. What happens, however, when incapacity strikes the surviving spouse? We may hope a family member will agree to help us out. And this may be a valid plan, particularly if the family member lives in our area, is not employed, and their own children are out of the house. But for my clients living in Florida, this is usually not the case—and even if family members are available, many of my clients choose not to ask them because of the burnout and fatigue that comes with being a caregiver.

When it is not feasible for a family member to help us, then we must seek professional assistance. In Southwest Florida, salaries for home health aides can average over $41,000 a year[1]. That expense can easily double depending on the level of care required and if you need assisted living. So then the question becomes, "If I can find a facility accepting new tenants, how will I pay for it?" If you have over $250,000 set aside for care, then you may be able to self-insure. But that savings amount would cover only three years of expenses, so if you need care for a longer period of time, you need to set aside more money to fund it.



One of the most common misconceptions among seniors is that Medicare will pay for long term care expenses. Medicare covers acute care, when you are expected to recover, but it does not pay for chronic custodial care, when you are not expected to get better. Medicare will help pay for a limited skilled nursing facility stay, hospice care or home health care if certain conditions are met, including a prior hospital stay of at least three days, and can pay for up to 100 days of care. But Medicare is not a long term solution.

Another misconception is that Medicaid may be a solution to pay for assisted care. But to qualify for Medicaid, you also have to qualify due to financial need. This means if a couple has an annual income of more than $6,000—or $899 of monthly income—they may be ineligible for Medicaid. Often people will attempt to become poor by giving all their money to their children and friends, only to learn later that there is a 60-month "look back," and according to Medicaid regulations, your assets include any money you gave away in the last five years when your eligibility is calculated.

As much we may dislike paying for insurance, when deciding how to pay for a professional caregiver, often long term care insurance is the least painful option. While you may spend thousands of dollars a year in premiums for a policy you might not ever need, if it is needed, the cost of the policy is only a fraction of the benefits you might receive. But my caution with long term care insurance is this: No two long term care policies are alike, so when you evaluate policy options, you will often be comparing apples to oranges. A trusted professional advisor can assist you in analyzing the various terms and conditions to help select a policy that is best for you and your family's circumstances.

Planning for incapacity may sound complicated, but it is not rocket science. You simply need to identify who is going to care for you and how are you going to pay for it. It means knowing what you are going to do in advance, and isn't that the definition of a plan? ■

A Scott White

RJFS financial advisors do not render advice on legal matters.
You should discuss any legal matters with the appropriate professional.

[1] *Genworth's 2010 Cost of Care Survey, conducted by CareScout®, covering 13,000 long term care providers.*

COMMENTARY

Current Events

As part of Scott's long term commitment to Lee County United Way, he participated in site visits. He is seen here with fellow board member Larry Hart, Lee County Tax Collector. This year the UW team met with the following partner agencies: LARC, FGCU Scholars Program and Senior Friendship Centers.

Scott's clients heard from Mark J. Roach, Portfolio Manager of the Dreman Contrarian Small Cap Value Fund, during the Experts Speak Luncheon.

The Fort Myers Rotary Club recognized Scott as a Paul Harris +4 Fellow. Named after Rotary's founder, the Paul Harris Society recognizes Rotary members who contribute $1,000 or more each year to the Annual Fund, PolioPlus, or approved global grants. Scott has been committed to Rotary service for years. Here he is shown with Julia East, Joseph Broughton and Mark Vincent.