Why Your Planning is Incomplete: Getting to the Big Picture

The importance of the big picture

Consider how much the absence of a comprehensive, coordinated plan cost a well-known celebrity. This nasty scenario involved Nick, the son of wrestler Hulk Hogan, and an auto accident that was Nick's fault. He served eight months in prison for leaving the scene of the accident. His passenger suffered permanent brain damage from the crash and will need lifetime care for his injuries. As with all auto accidents, if it was your car, it doesn't matter who was driving – your name is on the lawsuit!

The case settled out of court. Hogan sued his attorneys, financial advisors and insurance agents for not protecting his net worth, estimated at some $30 million. It turns out that there was only $250,000 liability coverage on all of his cars and no umbrella policy.

The financial advisor and banker were probably managing his short- and long-term investment portfolios, trying to serve him as well as they could in order to keep his account. The law firm, no doubt, drafted lots of wills, trusts, and other agreements that would protect the family from estate tax liability. The financial advisor may have protected Hogan's assets in a diversified portfolio. Apparently none of the advisors talked to each other, and there was no protection for a worst-case scenario. This could have been prevented with some comprehensive, coordinated planning with a knowledgeable planner.

A $150,000 sports car crisis in a nearby town – the son decided to "borrow" dad's car, crashed it and was at fault. Somehow the auto insurance had lapsed or been cancelled. So the car replacement was not covered. What else happened? Dad was sued by the other driver and lost plenty. Don't have a $150,000 car? That was the least of dad's expenses!

If you were in an "at fault" accident yesterday, what would you be facing today? Are any of your assets protected? Your home, your investments, your income?

This is just the tip of the iceberg on protecting your assets – just one of 8 or 10 parts to a good financial plan. Comprehensive asset protection analysis is not included in 99.9% of financial plans available. The expertise is not there to handle the complexity. You would have to hire an attorney with a background in contract law to review all the pieces of that puzzle – and to read all your insurance contracts. Or hire an independent planner who has that background as well.

What about income taxes? Talking with an accountant friend at breakfast last Saturday, she shared that the worst tax problems she is seeing right now are brokers who reallocate an

inherited portfolio without doing a tax calculation. Then the mess ends up in her lap and the client is angry about the taxes. What kind of incompetent advisor would risk a huge income tax liability without notifying the client? Too many do.

The problem is that they first have to recognize the intricacies of when the basis was set for the investments. If the assets are in a trust a lot of legal knowledge plus tax knowledge is required. This is a particularly troublesome area. Brokers don't understand trusts and taxes and accountants and lawyers typically do not understand investments. Even if you get them all together in one room to talk about your planning, important topics first have to be recognized and brought up to be taken into account. And what combined hourly rate are you paying for this meeting? And for all the necessary future meetings when tax laws change, recommendations are made, your situation changes (health, family status, income).

What about your captive assets? How do you fit your 401k or 403b choices to a good asset allocation? Broad based asset allocation is much more secure than the barbell many have. A few kinds of bonds or fixed income investments on one side and large company stocks on the other. The kind of investment strategy that lost people as much as half their portfolios last decade. No one wants to take a hit like that again but few know how to find unbiased, fiduciary advice to protect themselves. Wall Street hype colors the thinking of most investors and even most investment advisors. It's been going on so long that Wall Street believes its own advertising. It is fairly simple (simple, not easy) staying away from bubbles and bad advice. The right kind of planner will put together a generic asset allocation based on you, your objectives and your risk tolerance. They understand bubbles and help you steer clear of them instead of jumping on the bandwagon as many advisers do both personally and professionally. Buy and hold with annual rebalancing is plain vanilla – but it works. Get ahead by not losing as much in bad market years and not gaining as much in good ones - instead of chasing returns. Do the math and you'll see the difference. And keep in mind – a bad idea has to be recognized to be avoided. One of our planning clients was pitched on an investment by a doctor colleague. An internet 'opportunity'. Thanks to our contacts we found out there were potential copyright problems with Microsoft that the group developing the software seemed to be unaware of. Our client did not invest and several months later we received an email saying the group pushing the investment had encountered copyright problems. No kidding. Why did we dig into this? It sounded too good to be true and unlikely someone else had not done the same thing. My law background in intellectual property and secured transactions made me question the sellers and when they could not answer my questions, I advised our client to steer clear. He questioned us closely because it sounded like a good idea to him. Of course. It always does. Salespeople can make a silk purse out of a sow's ear. Knowledge give you and edge in making important decisions. Go to pbs.org (or Youtube) and watch the NOVA program *Mind Over Money* Can Markets Be Rational When Humans Aren't? It will enlighten you!

Many investment firms prohibit their advisors from picking investments and market timing. Why do you suppose that is?