FINANCIAL PLANNING MASTERCLASS

WITH GREG FURER, CFP®

BERATUNG ADVISORS

Financial Planning Masterclass by Greg Furer, CFP®

Disclosures:

This course is for informational purposes only and is not meant as investment advice or a recommendation to engage in any investment or financial strategy. Investment and financial decisions should always be made based on your specific financial needs, objectives, goals, time horizon and risk tolerance.

Securities and financial planning offered through LPL Financial, a Registered Investment Advisor. Member FINRA/SIPC.

The opinions expressed in this material do not necessarily reflect the views of LPL Financial.

Beratung Advisors and LPL financial do not offer tax or legal advice or services. Please consult with a tax or legal professional regarding your specific situation

Class 1 – Money, Anxiety, Fear and Stress

- "And which of you by being anxious can add a single hour to his span of life?" Luke 12:25 ESV
- Anxiety, fear and stress keep a ltot of us from living the fulfilling life we were called to live.
- The #1 reason for divorce in our society is money.
- The #1 reason for suicide in our society is money.
- The #1 reason for stress is money.
- Money itself is simply a tool.
  - We have a choice how to use this tool.
  - It can be used to empower you to do great things, but it can also be a tool that causes you anxiety, fear and stress.
- Roots of why money causes you anxiety, fear and stress for a lot of us:
  - We are taught to not talk about it
    - We do not have an outlet to release these emotions about money.
    - We do not have a community to learn from about money.
  - We don't understand what's involved so it seems more painful
    - Can feel like going to a dentist, taking a math class and going to marriage counseling at the same time.
  - We have unconscious beliefs about money that are rooted in our childhood and ultimately shapes the way we view money and emotions associated with it, referred to as money scripts. The four money scripts are:
    - *Money avoiders believe that money is bad, rich people are greedy, and that they don't deserve money.*
    - *Money worshipers are convinced that more money will solve all their problems, there will never be enough money, and that money brings power and happiness.*
    - *Money status scripts equate self-worth to net worth and put a premium on buying the newest and best things.*
    - *Money vigilance scripts believe in the scarcity of money causing them to be frugal, avoid talking about money, and their concern about their finances can also lead to excessive wariness or anxiety. These unconscious thoughts of each script could be causing the anxiety fear and stress with your money.*
  - *We view our money personally and therefore, our emotions are tied to money decisions*
  - *We can help manage the anxiety, fear and stress associated with money by being intentional with our money by creating a plan for your money.*

- Resources to dig deeper:
    - “Wired for Wealth: Change the Mindset that keeps you Trapped and Unleash your Wealth Potential” by Dr. Brad Klontz and Dr. Ted Klontz
    - “How Clients’ Money Scripts Predict Their Financial Behaviors” by Dr. Bradley Klontz and Sonya Lt Britt featured in the Journal of Financial Planning

    #1 Reason for Stress is often cited as money issues

    - https://www.verywellmind.com/what-are-the-main-causes-of-stress-3145063#:~:text=Google%20Podcasts%20%2F%20RSS-,Financial%20Problems,time%20during%20the%20previous%20month.

    #1 Reason for Divorce is often cited as money issues

    - https://www.marketwatch.com/story/this-common-behavior-is-the-no-1-predictor-of-whether-youll-get-divorced-2018-01-10
    - https://www.crosswalk.com/family/finances/5-reasons-why-money-is-the-1-cause-of-divorce.html

    #1 Reason for Suicide is often cited as money issues

    - https://www.health.com/money/financial-stress-suicide-risk
    - https://www.medicalnewstoday.com/articles/financial-hardship-is-a-top-risk-factor-for-suicide-attempts
    - https://slate.com/technology/2021/11/suicide-risk-money-research-mental-health.htmlv

Please note that any book recommendations are not endorsements from Greg Furer or LPL Financial.

Class 2 – What is a Financial Plan?

- "If you fail to plan, you are planning to fail!" - Ben Franklin
- Most people are not going to risk using their time and spending their resources on a business idea without some plan put together to how it will work, but will live their life without a business plan for themselves.
- A financial plan is like a business plan for YOU, Inc.
- A financial plan is simply connecting your resources to your goals on a path towards success.
- A financial plan can be as simple as one page, according to author Carl Richards, or they can be long and complicated with 100s of pages. They both are plans.
- The key is no matter what the plan looks likes, it connects the resources you have with your goals to give you plan of action to get you where you want to be.
- A plan not only gives you this path to follow, but it also gives you framework to make informed decisions.
- One of the only certainties in life is uncertainty.
- We cannot predict the future and whatever plan we create is going to help us navigate the unknown better than not having a plan.
- A financial plan is not perfect and it cannot guarantee success, but it can give you a tool to give you framework you can use to make better decisions and manage the emotions that you can experience in your financial life.
- Dig Deeper:
    - "The One Page Financial Plan" by Carl Richards

Class 3 – Getting Started with Your Plan

- "For I know the plans I have for you, declares the Lord, plans for welfare[a] and not for evil, to give you a future and a hope." Jeremiah 29:11 ESV
- Begin with the end in mind.
- Write your obituary to help you discover your Why or what drives you.
- Use your why to create long term goals .
- Think big. Create BIG HAIRY AUDACIOUS GOALS (BHAGS).
- Once you create these long-term goals, the next step is to share them with your spouse if you are married.
- Then you take your individual whys and goals to create mutual whys and goals.
- Once you have these you then want to work your way back from your 20, 30 or 50 year goals and create targets for your 1, 3, 5 and 10 year goals that can get your there.
- Once you have those you can come back to today and find out what you can start doing tomorrow to get you to where you want to be 50 years from now.
- It's important to go through this process to make the plan a tool to get you where you want to be instead of just a formula someone gave you to get to a result you do not care about.
- Financial planning is about you and empowering you to pursue your goals and live a fulfilling life.
- Resources to dig deeper:
    - "The 7 Habits of Highly Effective People" by Stephen Covey
    - "Start with Why" by Simon Sinek

Class 4 – Your Plan is Unique Because YOU are Unique

- "Any customer can have a car painted any color that he wants so long as it is black." – Henry Ford
- We all have different tastes, different personalities and different goals.
- These differences do not make us good or bad or right or wrong they make us the person God designed us to be for his perfect plan.
- Since we are unique, our financial plan is unique.
    - Much of the financial advice you hear seems to be one size fits all.
    - You are told to be financially successful you must do this or that.
    - You are told this financial vehicle is always bad or this one is always good.
    - The advice is in absolutes and is the same advice for everyone hearing it.
- We are all unique, so we need have unique plans and therefore receive unique advice.
- Why are we not receiving unique advice?
    - I believe it's because we are seeking absolute advice.
        - We want to know we are making the "right decisions" and doing the "right thing".
    - We are getting the advice from blogs, articles, podcasts, and tv shows that do not have the ability to give personalized advice.
    - This advice is not bad. We will give some of that advice in this course, it's just important to take that advice and apply it to your unique situations.
- You need to use your goals to guide your plan not someone else's goals for a plan that is not yours.
- There is no silver bullet there is not unilateral right or wrong.
- Being a good steward of what God has given you, your time talent and possessions is using them to be the person you are called to be. To do so requires intentionality and requires a plan that is based on your unique call.

Class 5 - Basic Financial Knowledge

- Risk tolerance
    - Often done through a risk tolerance questionnaire.
        - Many examples can be found online.
        - These questionnaires ask you a series of questions to help you determine the risk level you are comfortable taking.
        - These questionnaires are important, but they have limitations.
        - The first limitation is they are usually only focused on hypothetical investments into traditional markets and do not take into account other forms of investing risk like investing in your own business or real estate rentals.
        - The second thing is they do not invoke the emotions you feel during the potential losses and therefore do not help you know how you would react.
    - It is impossible to duplicate these feelings without truly going through them, but I have found that visualizing these events and walking through them can really help you.
        - For example, if looking at investing in a stock portfolio that is similar to the Standard and Poor's 500 index, although past performance is no guarantee of future results, you could look up the history of that index and realize that the worst calendar year since 1950 was negative 39% in 2008. Then, you could think about the amount of your long-term investments that you were planning on investing could reasonably go down by that much.
        - In this example, if you are investing $100,000 - start to imagine yourself investing that $100,000 and a few months later opening up a statement that shows you now have $61,000, which is a 39% loss.
    - You also have to look at the upside in each of these scenarios to help you decide howmuch risk you can take for potential reward.
    - You can never predict the risk of any investment or the potential return, but you can tryto put reasonable assumptions based on the investment to help you make an educated decision with the facts you have.
    - The key for risk tolerance is to visualize the pain and try to find out your threshold. Once you determine it, it can help you decide what is in your best interest.
- Cash Flow
    - You should consider what is your cash flow and what are your future cash flows.
    - This a fancy way of saying you need to find out the income you have coming in and what expenses you have that take this resource away from you.
    - This is often a step that people do not want to do or do not devote enough attention to.
    - People will often forget to account for things in their cash flows. Some examples are:

        - Annual memberships
        - Long-term expenditures
            - These include replacing a computer, getting new vehicles and home maintenance.
            - This should be amortized out and added to your current cashflow.
        - Forced savings such as automatic contributions to your retirement plan or savings accounts.
    - Once you get a good accounting of all your expenses, you will need to project them out in the future.
        - You will need to account for expenses that will:
            - go away such as a debt that is decreasing or activities you will no longer do.
            - increase like for example buying a boat or motorcycle or childcare.
    - You will also need to project out income increases.
    - You will then need to assume a reasonable inflation rate on expenses and income
    - You will need to think about long term goals that may affect these expenses such as buying a second home, having children, paying for health care, or retiring.
    - You will need to determine how to replace income sources as they change over time.
        - For example, if you retire, where will you draw income from and how? Another example is when will social security income kick in?
    - Once you understand these cash flows, you can understand the amount of resources you have to invest or apply to goals and determine if that is enough to get you to where you want to be.
- Debt
    - There are many opinions on debt.
        - Some say all debt is bad.
        - Some say there are bad debt and good debt.
        - Some people believe they should pay off low interest debt with higher returning investments.
        - Some people say you should not because over the long haul the math says you can have more money by keeping the higher returning investment and low interest debt.
        - My approach to debt is there is no black and white answer. It depends on your goals, personality and resources.
    - Approaching debt is similar to risk tolerance.
        - Are you willing to take the risk that debt causes?
            - Debt limits your financial freedom.
            - Debt reduces your cash flows. It erodes your wealth building potential.

        - Debt can cause problems when you experience financial hardships and can no longer pay that debt obligation.
        - Debt can enable you to grow your business, buy a house, and allow you to receive benefits of something sooner.
        - If you have done enough planning, you may be able to weather substantial financial storms and still make financial obligations.
        - Debt can cause anxiety, stress and fear.
    - I often suggest that you only take on debt after carefully considering the pros and cons and only to better your financial life.
    - I suggest staying away from debt to buy things today with tomorrow's dollars.
    - It's prudent most of the time to stay away from credit card debt as this is often used to buy things you want instead of need and often has high interest.
    - It's important to be careful with 0% interest or similar offers that are used as a ploy to get you to buy something you cannot afford and typically will not be paid off under the terms to get the low interest.
        - However, if you have money set aside earning interest and pay attention to the fine print, you can use this to your advantage.
    - The key with debt is to understand the consequences and determine your personality and situation and use it wisely and sparingly.
- Emergency cash
    - The average emergency expense $3,500 according to a bankrate.com survey.
    - You need money to cover emergency expenses however, you also need money to cover your monthly cash flow in case you run into a financial hardship.
    - You should have enough cash on hand to be able to be without work for 3-6 months based on your goals.
    - You should also keep cash to cover short term goals less than 24 months.
        - An example, if you make $100,000 a year and in this example 15% is paid in taxes, 10% goes into long term savings and 5% goes into short term savings, you really need $70,000 a year to live your lifestyle.
        - In this example you should have $17,500 - $35,000 in cash savings to meet the 3-6 months of living expenses to be able to weather most financial storms.
    - You should keep any planned short-term expense in cash.
        - Using the existing example and add that you plan to buy a boat in the next 24 months that costs $10,000. You should keep another $10,000 in addition to the
          $17,500 - $35,000.
    - If the savings number recommended for you seems improbable, it's important to take baby steps.
        - You eat an elephant one bite at a time.
        - You need to start small and work your way there.

- If you are not to your cash savings goal, you should look for ways to reduce some of your expenses and bigger goals to help you get there faster.
    - Also, you may want to pull back some of your long-term savings to get there quicker.
        - You will lose the long-term compounding potential of these savings, but that negative effect could be worse if you hit that financial storm without the cash savings, so this might be a tradeoff you want to make.

- Compounding
    - One of the hardest parts of your financial plan is that it is not an overnight fix.
    - It will typically take a long time to accumulate wealth.
    - It takes day to day intensity, week to week consistency, that month to month will lead to championships. - paraphrased from Coach Jim Rankin
    - Think of your money when it makes interest, of it having children.
        - Those children will then work just as hard as the parents.
    - When you let your money grow, long term compounding interest makes the money work for you.
    - Your money created more money through compounding interest.
    - The problem with compounding is it needs time to maximize the exponential growth
        - An example is if you were to invest $100 a month starting at age 25 until age 65 you would have invested $48,000, however if you earn 6%, compounding that would be worth over $200,000.
        - If you started saving $200 a month which is double the above example, but waited until age 40, you would invest $60,000 but would only grow to just over $139,000.
        - Delaying savings 15 years in this example, you would have invested $12,000 more but have almost $61,000 less.
    - It's important to look at compounding and use reasonable assumptions for the types of investments you plan to have, and reasonable savings amounts that you will be able to save as part of your plan. Please note these hypothetical examples are for illustration purposes only and is not intended to be representative of actual results or any specific investment. Keep in mind that it is possible to lose money by investing and actual results will vary.

- Protection
    - If you have a plan, one thing is almost certain, something will come up to make you have to revise your plan.
    - Some of these things we can plan for but some we cannot.
    - It's important to protect against risks to your plans.
        - This would not be things that we have planned for that we will tatments.
    - The most common risks are lawsuits, premature death and a disability.

- To protect against these, you should understand the results of these risks and what damage it would cost your plan.
    - Then, you have to make the decisions of how much you are willing to take from your cash flow to fund other goals to protect this plan.

- Estate Documents
  - I believe anyone over the age of 18 should have a proper will, living will, and power of attorney documents. Please note I am not an attorney – the following is for educational purposes only. Please discuss your situation with a licensed attorney.
  - A Last Will and Testament (Will) directs the distribution of all your assets without a beneficiary designation.
    - Any assets you have that have a beneficiary designation will pass outside of your will such as life insurance or retirement accounts.
    - For example if you name you brother as a the beneficiary on your IRA but your spouse in your will, then that IRA will go to your brother and assets without a beneficiary like your house and your checking account generally go to your spouse.
    - When you have a minor child, you can create a testamentary trust in your will which is a trust that is created on death and restricts access to these assets to a pre-determined age.
      - Having your minor children inherit your money without a testamentary trust will allow them to have access to those assets at the age of majority which depending on the state you live is either 18 or 21.
    - In addition to the testamantary trust, you can appoint guardians to care for the child in case of a premature death.
      - Without this provision, the courts will determine who will take care of your minor children instead of you.
  - A Living Will gives instructions on health care directives if you are incapacitated.
    - This not only ensures your wishes are honored, but more importantly takes this burden off of loved ones going through a rough time.
  - The Power of Attorney (POA) is an important document that gives health care and financial decisions making to another individual if you are unable to do so.
    - Spouses do not have this ability without this document.
- Pay yourself first
  - Pay yourself first can also be worded as prioritize your savings.
  - Put money away systematically from each pay to ensure you are saving before you are spending.
  - This concept will help in two ways:
    - First, it will allow you to systematically save into your investment vehicle which could allow you to take advantage of downturns in your investments by investing when things are low because of the systematization of your investments. Please understand systematic investment plans do not ensure a profit nor guarantee

against loss. Investors should consider their financial ability to continue their purchases through periods of low price levels.

    - Second, it stops you from spending what you planned on saving which has shown to increase savings over time.

- When you build out your plan, make sure you pay yourself first. These are just a few of the basics.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

All examples are hypothetical, are for illustrative purposes, are not representative of any specific investment. Your results may vary.

Class 6 – Investing Basics

- In the parable of the talent in the Gospel according to St. Matthew, Jesus tells the story of a master that puts three servants in charge of his goods while he is away on a trip. Upon his return, the master assesses the stewardship of his servants. He evaluates them according to how faithful each was in making wise investments of his goods to obtain a profit. Upon return, the master rewards his servants according to how each has handled his stewardship. He judges two servants as having been "faithful" for growing what they were given and gives them a reward. To the last unfaithful servant, who played it safe by just hiding the money, he is rebuked.
- In our lives we are called to be good stewards of our time, talents and our possessions.
- To be a good steward includes multiplying what we have be given.
    - This multiplication means something different based on the talents God has given you and what he has called you to do.
    - The key is to do what is right for you.
- Often when people speak about investments, they are talking about traditional investments likes stocks and bonds and vehicles that invest in these like mutual funds and exchange trade funds.
    - This also happens to be the way a lot people invest their money.
- There are other ways to invest your money such as your business, and real estateto mention a couple.
- In this class we focus on stocks and bonds that publicly trade on major markets since this will be a big part of most of your plans.
- Before you invest, you need to start with your risk tolerance we discussed already. You then need to look at your time horizon.
    - Generally, investing requires a long-term time horizon.
    - Once you have determined your risk tolerance and time horizon, you need to look at what rate of return potential you need to meet your goals.
- Stocks
    - Stock is simply ownership in a company.
    - Stock companies have three options when they make a profit.
        - They can invest it back into their company
        - They can pay it all to ourselves as owners. This payment is called a dividend.
        - They can do a combination of the two.
    - A stock is whatever someone is willing to pay for them.

- When you see a price of stock go up and down its simply the last price someone paid for a share.
- Stocks can pay dividends but each company will decide if they want to or not so it may not.
- Owning a company and therefore owning stocks are risky.
- If the company goes bankrupt, a stock holder is an owner, so they will only get back money if all the creditors get paid which is unlikely since you declared bankruptcy, so they could lose their entire investment.
- Ownership in US companies though publicly traded stocks has historically added value for the risk.
- Higher risk typically gives you the opportunity to have a higher reward.
- Over the history of the Standard and Poor's 500 index, which is an unmanaged index of 500 companies and generally represents the us domestic stock market, however the market is much larger than those 500 companies, has returned a little over 10% on average.

The S&P 500 Index is unmanaged and cannot be directly invested into. Past performance does not guarantee future results.

- This over a long period of time and with a diversified portfolio of companies.

- Publicly traded companies have two options for additional capital or money:
  - Issue more stocks shares, which dilutes ownership.
  - Borrow money
    - Large companies that need large amounts of money do this often in the form of bonds.
- Bonds
  - Where stock is ownership in a company, bonds on the other hand are debt in a company.
  - When you own bonds, you are a creditor of a company instead of an owner.
  - While stocks can pay a dividend, bonds on the other hand pay an interest. Investors that buy bonds are taking a risk that the company's promise to repay principal and pay interest on the agreed upon dates and terms will be upheld.
    - The promise is only as good as the company so if the company has financial hardships they may not pay on their promise and they could bankrupt and then you may get nothing back or only get back pennies on your invested dollar.
    - You have a better chance of getting something back than owners because creditors get paid first.
  - Bonds have historically had less risk than stocks.
  - The Barclays bond aggregate, which is an unmanaged index that generally represents the US bond market, has historically averaged a return of 6%.

The Barclay's Bond Aggregate index is unmanaged and cannot be directly invested into. Past performance does not guarantee future results.

- ETFs and Open-End Mutual funds
    - Due to the cost of individual stocks and individuals bonds, and how they trade on markets for efficiencies, and to be able to manage risk through diversification, a lot of people look to use vehicles that enable them to purchase a large group of investments at one time.
    - There are several vehicles to use for this but the two most common are open-end mutual funds and exchange traded funds.
    - Exchange traded funds trade daily on markets like stocks do but each share represents ownership in multiple stocks or bonds the ETF owns. Typically, there are active and passive EFTs but generally speaking most are unmanaged and try to mimic a stock or bond index.
    - Mutual funds on the other hand trade only once a day after the markets close and again are either active or passive but typically they are actively managed to some objective.
      ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

- Diversification
    - In real estate there is a popular saying, location, location, location. With investments it can be said diversification, diversification, diversification.
    - A general rule of thumb is to keep your investments exposure to any company less than 10% of your overall investments to reduce risk.
    - When you work for a public traded company you may want to keep it below 5% since you already have risk exposure to that company through your employment.
    - You can use group investment vehicles like ETFs and mutual funds to help you diversify your risk by owning more than one company stock or bond.
    - In addition to owning different companies, to diversify your risk even more it helps to own different size companies, in different sectors, in different markets, like domestic and foreign.
    - It also helps to own some stocks and some bonds.
        - In addition to having different risk profiles and growth potentials, they have historically had inverse relationships in a lot of markets.
        - Sometimes when stocks do bad, bonds do well and vice versa which can help reduce risk.
    - To decide how to diversify your portfolio you have to take the risk tolerance you havediscovered in previous classes and the return potential you need and make your portfolio match it.

Diversification is an investment strategy that can help manage risk within your portfolio but does not guarantee profits or protect against loss in declining markets.

- Market risks
  - Once you have your portfolio the next thing to understand are the ups and downs.
  - Negative deviation
    - When your return drops below the average or arithmetic mean, your investments experience this, you have to get a greater return to get back to even.
  - When you invest your money in markets they go up and down and you have to use a reasonable assumption to account for these losses.
  - If a market averages 8%, you may want to use a 6% number for your future value calculation since its assuming you will get 6% every year.
  - Income Drag
    - The negative deviation concept is compounded when you start to take an income. We call this income drag.
    - This is why a lot of people take less risk when they get closer to taking an income and why you may want to use different return assumptions for different stages of your plan.
- The takeaway for the investment basics class is to invest in a well-diversified portfolio and stay invested for the long haul and invest in a way that matches your risk tolerance and goals.

Class 7 – Financial Planning Assumptions

- Uncontrollable Assumptions
  - Inflation
    - Erosion of purchasing power.
    - Planned obsolescence can act like inflation by eroding your purchasing power as you buy new items to replace the obsolete ones.
    - Technology can act like inflation by eroding your purchasing power as you buy new technology and pay for new services.
    - Different expenses will have different inflation rates and should have different assumptions.
    - The best thing you can do with your assumption with inflation is to err on the higher side which will give your plan a higher probability of being successful.
    - Historically over the past 30 years inflation has stayed below 3%.
    - We use 3.5% for our basic inflation rates assumption.
    - The best thing you can do with your assumption with inflation is to err on the higher side which will give your plan a higher probability of being successful.
    - You have to make assumptions for inflation, not only for expenses and goals but also for income sources
    - Over the past 25 years wages have averaged an increase by a little over 5%.
      - Just like expenses, that is a general rate and different types of employment will have different averages.
    - It is better err on the lower side of wage increases.
    - We use 2.5% annual increases for our basic wages assumption.
    - With inflation, the key is to use different inflation rates for different expenses, goals and income sources and set reasonable assumptions based on the facts available.
  - Longevity
    - We do not know when will die.
    - Average life expectancy is below 80.
    - The longest anyone has lived in modern recorded history is a lady in France that lived to 122.
    - With advances medicine and healthier lifestyles, life expectancy has been increasing and can reasonably be expected to keep on that trend.

        - A couple being two lives has a longer life expectancy than a non-couple. In other words, the chances of one of them living past 80 is great than an individual.
        - It is important to consider family health history and lifestyle choices when deciding what assumption you use, but just like inflation it is better to err on the side of living longer.
        - We us 90 as a basic life expectancy assumption.
    - Taxes
        - Federal income taxes have varied widely since inception in 1916.
        - The highest tax rate was originally 15% and skyrocketed to 94% in 1944. Currently today the top rate is 35% and it ranges between 0%-35%.
        - We have a marginal tax rate system. Which means every taxpayer has a portion of their income taxed at different rates.
            - If you are in the highest tax bracket at 35%, that does not mean that you pay 35% of your income in taxes.
            - You will have portions of your income taxed in each bracket.
            - In addition to that, the tax rates are only applied to your taxable income which is calculated after deductions and can be reduced by tax credits.
        - A number to look at when making income projections is your effective tax rate.
            - This number is the actual amount you paid in taxes divided by gross income, not taxable income.
        - It also helps to look back at several years of taxes to get an average.
        - You then want to use that number and take into consideration future incomeincreases and other events in your plan that may cause your effective tax rate to go up.
            - An example of this is in retirement when you take income from different sources and may have a lower taxable income amount.
        - Our current federal tax rates are lower now than they have been in the past 30 years and our federal budget is running with a deficit with a large national debt. So, it is reasonable to assume tax rates will increase in the future.
        - You also need to take into account capital gains taxes, state taxes, local taxes and property taxes and make reasonable assumptions on their increases.
        - It is best to err with taxes being higher to increase probability of success with your plan.
    - Returns
        - Different investments will have different return assumptions and you will need to make a reasonable assumption of the returns.
        - A common mistake with investment assumptions is to use an average annual rate of return and not factor in variables of returns.

        - When you are using a compounding number as an assumption, this should be lower than the average rate of return to account for negative years or year with lower returns.
        - As with other assumptions, its best to err on the side of lower returns to increase probability of success.
        - A general return number with a moderate risk diversified investment portfolio we use is 6% but this number can vary greatly depending on type of investment and other assumptions.
- Controllable
    - Controllable does not mean that every part of the assumption is controllable.
    - Expenses
        - Future expenses
            - Don’t forget to include additional costs associated with these goals.
            - You will also have to make assumptions for future expenses due to lifestyle changes.
            - Healthcare is a major expense category.
                - Although the inflation associated with health care is uncontrollable and genetic makeup and accidents are out of your control, you can exert some control of your lifestyle which effects your health care costs and you can control insurance choices and lastly choosing jobs that offset healthcare costs.
        - Income
            - Is a controllable assumption by creating multiple sources of income and changing the sources of income.
        - Goals.
            - If your plan is not successful, you can reduce the amount of your goals or timing of your goals.
- The important thing to remember is you cannot predict the future but that does not stop you from making reasonable assumptions based on the facts you have and you can only control so much so focus on what you can control.

Class 8 – Build Your Plan

- To build your plan, you will want first to start with the cash flow.
- Cash flow is simply understanding what money is flowing into the plan each year and what money is flowing out.
- It is important to get a realistic analysis to get a more accurate picture as this is the foundation of the plan.
- To get an accurate cash flow you will want to first start with adding up the expenses of your household.
    - A good place to start is to review your bank statements and credit card statements for the previous year.
    - Start listing all the expenses and categorizing them.
    - If you find yourself where you just cannot bring yourself to do this work, you can seek professional help.
    - It's important to not forget taxes, automatic savings, costs built into your paycheck, annual subscriptions and memberships, infrequent bills, and to amortize out long term expenditures like maintenance to your house and car purchases.
    - It helps to add a buffer for difference in expenses yearly to help err on the side of caution.
    - Typically, we add a miscellaneous expense of 5% in a lot of our plans to account for overages in spending.
- Once you are done getting a picture of your annual expenses you will want to then look at your income sources coming in.
- Once you have the income you will want to subtract the expenses. If the expenses are more than the income you will need to figure out how to reduce spending or if there is excess, you need to allocate it to savings or find out what expenses you are missing.
    - You want to have this zero out.
- Once you have you cash flows you will need to add assumptions of inflation to your expenses and growth assumptions for your income as you project them out.
- You will then want to layer in goal assumptions that will include when income sources start and stop for things like retirement and expenses like weddings, major purchases, child care, charitable giving goals, education and recreational activities such as traveling in retirement.
- A simple plan is more effective than no plan.
- Once you have this built out, your plan will want to change variables to get your plan to accomplish your goals.
- Once you have a plan that gets you to where you want to be, then it helps to break it down in simple action steps and update your plan at least once a year or when there is a major life event such as a marriage, child, death, career change, medical event, or career changes.

- The process for building out your financial plan focuses on numbers behind pursuing your goals. One of things a financial planning professional can do is look at how these all coordinate into every part of your life by reviewing how this plan coordinates with your beneficiaries, estate documents, insurance policies and more which would be a little more in depth than we have time to cover in this class.

Now that we talked about how to build your base plan it's time to talk about how to test your plan which we will do in the next class.

Class 9 – Testing Your Plan

- "Hope for the best, but plan for the worst."
- Your plan is using reasonable assumptions if you followed the instructions from our earlier classes, but they are just that, assumptions.
- It is not a matter of if your life will deviate from your plan assumptions, but a matter of when, as we cannot predict life.
- To help you increase the probability that your plan will work you need to test for the worst.
- To test for these events, you will need to run an alternative plan with each of these and thendetermine what changes you need to make to reduce the impact of these events.
- This also may help you to make more rational decisions when these emotional events take place.
- It is also important to test for each of these events together and not just by themselves.
- It's best practice to test for the variables you choose to use separately first to understand the impact of these events and then test for them happening together in combinations to understand their combined impact.
- Areas we recommend testing for:
    - Unemployment
        - Test for one of at least 6 months.
        - When you test for this you will not only need money to replace your income, but you will also need money to continue your long-term systematic savings.
    - Premature death
        - We recommend testing a premature death at several ages.
        - When you are testing for a premature death it's important to consider not just the loss of income and paying off debts, but also final expenses such as funeral costs.
        - We typically use $15,000 as a basic assumption of the cost of a funeral and burial based on averages but this can vary greatly based on your plans.
        - If you are married, you will want to assume your spouse will have to take some time off for bereavement and this may impact their savings.
        - If you have children, depending on their age, you may need to add in additional childcare expense in case of a premature death.
        - If you have life insurance in place you will want to include that death benefit in the plan when testing for a premature death.
    - Disability

- When you test for a long-term disability, you should assume you have no income coming in from your work except for any disability policies you may have.
- You will want to test the whole way out to your retirement goal.
- There may be additional costs associated with your disability, for example you may have to pay for an electronic wheel chair and/or ramps, and if you are married there could be loss of income from your spouse as you deal with the disability given the wide range of types of disabilities and costs.
- We typically just test for loss of income.

- Lawsuit
  - Although there are many types of lawsuits that can happen during your life and threaten your financial plan, we are referring to lawsuits from an accident.
  - Common examples are: you are in a car accident and are sued or someone is at your house and has an accident and sues you.
  - Although these lawsuits can vary widely in scope based on a lot of factors, they will typically only come after your net worth or your future earnings potential.
  - One of the ways to test for this risk is your human life value which attempts to calculate your earnings potential over your life. This type of calculation is often used by lawyers to calculate the value of a human life in lawsuit, but also can be a very high number and less common that they would be awarded an amount this high.
  - To simplify it, since there are so many outcomes to these lawsuits, we typicallywant to test for ten times your gross income or your net worth, whichever is higher.
  - These types of lawsuits are typically covered by liability insurance on your homeowners, renters, auto, excess liability (commonly referred to as an umbrella policy) or other types of property and casualty insurance.
- Market fluctuation
  - To test this, you will want to look at your long-term investments' allocations and look at historical returns and risks and run a plan that factors in downturns.
  - The most common method to do this is Monte Carlo simulation and that is how we test for this with our clients. These calculations are complicated but there are many software solutions that can help you test for this.
  - A simplified method is to just take the historical average return and reduce it by as much as 50%.
    - If you use this simplified method, it helps to pick a year in your plan, the earlier the bigger the impact, and show a negative year.
- Taxes
  - When you are using more sophisticated software like we use with our clients, we can run a hypothetical tax return each year for a client to help test the effect of taxes.

    - When using a simplified tax assumption like that, you should test for around a 20% increase in taxes based on historical tax increases.
  - Increased Inflation.
    - We typically recommend testing up to 1.5 times the amount you assumed.
  - Long term care
    - Long term care is a very broad term that covers many areas and the costs can vary widely based on your needs, services provided, the facility you choose and where you live.
    - We are referring to assisted living facilities.
    - In Pennsylvania, according to a Genworth study(2019), the average costs of assisted living is $48,000 per year.
    - The typical stay in an assisted living facility is about 22-28 months depending on the report.
    - The inflation on long term care has been hard to quantify because of the differences but has generally outpaced average inflation.
    - We typically assume a client has long term care expenses of $48,000 in today's dollars, starting at age 70, and lasting for 4 years in our average plan to account for the rising costs and unknown costs.
  - Social Security
    - Typically, those under 50, you will want to test getting half of the expected amount of social security and then test with no social security.
- When you test your plan for these scenarios, we have reviewed there is a good chance your plan will not work. That is ok and common.
- A lot of people do not have a plan that will work even before testing it.
- The purpose of testing it is to see what will happen so that you can then create ways to reduce the effect of these events.
- Once you understand the risks of these events, you must look at how to solve them and if solving them is worth the costs for you.
- It's a tradeoff that you have to decide if covering that risk worth the cost to you.
- Often, people will use some formula or method that someone has given them to determine how to insure against a risk, but we believe when you have a plan and you have tested like we discussed you can use your plan to determine how important that risk is to you.
- Some of these risks, you may decide after reviewing your plan and understanding the risk, to let it stay unprotected and that is up to you.
- The key is you made that determination based on your personal goals and your plan, not based on what someone told you that you should have based on generalities.

Class 10 - The Hardest Part, Sticking to Your Plan

- "Don't wait until you're in a crisis to come up with a crisis plan." *Phil McGraw*
- It's hard to stick to a long-term plan because we naturally are short-term focused.
- The best way to stick to your plan is to know yourself.
- Know yourself and set yourself up for success.
- Do not create unrealistic goals because not winning will tempt you to give up on your plan.
- Create small wins to keep you motivated to stick to your plan.
- Give yourself rewards for sticking to your plan
- If you cannot budget or struggle with categorizing your expenses, use guardrails instead of hard budgeting rules.
- Set times to review your plan regularly and give yourself progress reports.
- Create short term goals so you can stay focused.
- Seek third party help like a financial planner that can hold you accountable with regular meetings.
- Sticking to your plan gets even harder when you run into the stress, anxiety, and fear a lot of us experience around money. Then it gets even harder when there are ups and downs of markets. Then add in one of our scenarios we tested for happening in your life and it can be very difficult to stick to your plan.
- "Be fearful when others are greedy and greedy when others are fearful." - Warren Buffet
- Fear is a powerful motivator.
- Many studies have shown that fear is 3 times stronger of a motivator than greed.
- Fear can cause you to abandon your plan.
    - When you plan for the worst and hope for the best it can help you stay rational instead of being caught up in emotions.
- Preparing for the worst by testing for the things we covered will help reduce the effect of the fear.
- You can never replicate the fears and emotions that the "what ifs" in life create inside youuntil you experience them.
    - But trying your best to replicate helps make it easier and increases the probability of you sticking to your plan.
- When you go through tough times with your financial plan the key is to focus on what you can control, not what you cannot.
- When the time comes to a crisis, stick to what you can control, your actions. Stick to your plan!

- Sticking to your plan in times of crisis is extremely challenging. We have a heightened sense of emotions including the fear, anxiety, and stress we have talked about.
    - In addition to dealing with our fears, we are being inundated with constant news feeds of bad news which compounds our fears.
    - Often when this is happening people will hear rational arguments about the markets historically recovering but often it's too late, the fear has set in and you make an emotional decision instead of a rational decision.
    - People's emotions overcame rational decisions.
- We cannot predict the markets, so have a plan and stick to your plan.

Class 11 - Monitor Your Plan

- "Stay committed to your decisions but stay flexible in your approach." – Tony Robbin.
- We recommend monitoring your plan at least once a year to assess your progress, however, more often is better.
- We caution our clients not to monitor daily in most cases as this can increase anxiety, fear, and stress and cause emotional decision making.
- Reviewing your whole plan every 6 months and then focusing on different areas each month is a method we often recommend.
    - Stick to what works best for you.
    - There are many programs you can use to help you do this and you can always hire a professional to help.
- When should you change your plan?

    1. When your plan is not working.
        - If you are not achieving any of your targets you set up for yourself after a year, it's time to change the plan.
    2. When your life changes.
        - Include getting married, divorced, having children or grandchildren, changing jobs, starting your own company, losing your job, inheriting money or anything that drastically changes your life.
        - Often goals change with the life changes above, but they could change for many reasons.
    3. When your risk tolerance changes.
    4. Policy changes.
        - These include changes to the tax code or retirement plans that could affect your plan.

- When you should not adapt your plan.

    5. When the market drops.
    6. When you have irrational fear, panic, and anxiety that overcomes you from the news.
    7. Because something you tested for happened.

Class 12 - Your Financial Coach, a CFP® Professional

- A person that calls themselves almost anything but that does not mean they qualified or even offer financial planning. They may just sell investment or insurance products.
- Unfortunately, there are many regulatory bodies with oversight and many types of ways to receive advice that can lead to confusion.
- The first thing I suggest is hire someone with credentials that is suited to what you are looking for.
- This is not a perfect method as it does not guarantee that person is the right fit for you or that they are going to give you the advice you need, but it's a great start. As you know, to receive that credential that advisor must have met some requirements.
- There are many licenses, Series 7, 6, 63, 65, 66, etc. and 100s of industry designations that advisors can use but since this class is about building and sticking to a financial plan, I recommend you start with credentials that directly involve financial planning.
- The leading industry certification for financial planning that has the most rigorous requirements is the CERTIFIED FINANCIAL PLANNER™ certification.
    - Anyone can call himself or herself a "financial planner," but CFP® professionals meet rigorous education, training and ethical standards, and are committed to serving their clients' best interests today to prepare them for tomorrow.
    - Only those who have fulfilled the certification and renewal requirements of CFP Board can display the CFP® certification marks.
    - What's more, a CFP® professional must acquire several years of experience related to delivering financial planning services to clients and pass the comprehensive
      CFP® Certification Exam before they can call themselves a CFP® professional.
    - Individuals certified by CFP Board have taken the extra step to demonstrate their professionalism by voluntarily submitting to the rigorous CFP® certification process that includes demanding education, examination, experience, and ethical requirements. These standards are called "the four E's," and they are four important reasons why the financial planning practitioner you select should display the
      CFP® certification marks.
    - When selecting a financial planner, you need to feel confident that the person you choose to help you plan for your future is competent and ethical.
    - The CFP® certification can help to provide that sense of security by allowing only those who meet the following requirements, known as the four E's, the right to use the
      CFP® certification marks.
        1. Education
            - CFP® professionals must develop their theoretical and practical financial planning knowledge by completing a comprehensive course of study at a college or university offering a financial planning curriculum approved by CFP Board. Other options for satisfying the education component include submitting a transcript review or previous financial planning-related coursework to CFP Board for review and credit or showing the attainment of certain professional designations or academic degrees.
        2. Examination
            - CFP® practitioners must pass a comprehensive two-day, six-hour CFP® Certification Examination that tests their ability to apply financial planning knowledge in atn integrated format. Based on regular research of what planners do, the exam covers the financial planning process, tax planning, employee benefits and retirement planning, estate planning, investment management and insurance.
        3. Experience

- CFP® professionals must have three years minimum experience in the financial planning process prior to earning the right to use the
CFP® certification marks. As a result, CFP® practitioners possess financial counseling skills in addition to financial planning knowledge.

4. Ethics
    - As a final step to certification, CFP® practitioners agree to abide by a strict code of professional conduct, known as CFP Board's Code of Ethics and Professional Responsibility, which sets forth their ethical responsibilities to the public, clients, and employers. CFP Board also performs a background check during this process, and each individual must disclose any investigations or legal proceedings related to their professional or business conduct. It doesn't stop there, once certified, CFP® practitioners are required to maintain technical competence and fulfill ethical obligations. Every two years, they must complete a minimum 30 hours of continuing education to stay current with developments in the financial planning profession and better serve clients. Two of these hours are spent studying or discussing CFP Board's Code of Ethics or Practice Standards. In addition to the biennial continuing education requirement, all CFP® practitioners voluntarily disclose any public, civil, criminal, or disciplinary actions that may have been taken against them during the previous two years as part of the renewal process.

- There are many designations out there and there are good financial planners that are not CFP® professionals but it's a useful place to help you find somebody to help you build a financial plan.
- Also, you may want to work with someone that works with a CFP® professional and adheres to the standards.
- Once you have found a professional you want to work with, we think you should ask these 10 questions from the CFP board:

5. What are your qualifications and credentials?
    - Ask about the credentials your advisor holds and learn how he or she stays up to date with current changes and developments in the financial planning field. Ask how they expand their knowledge and stay informed through mandatory continuing education.
6. What experience do you have?
    - Ask for a brief description of the advisor's work experience and how it relates to his or her current practice.
7. What services do you offer?
    - Credentials, licenses, and areas of expertise are all factors that determine the services an advisor can offer. Ask your advisor what products, services, and advice he or she can offer.
8. What is your approach to financial planning?
    - Ask the advisor if he or she will create a comprehensive financial plan for you. Learn how he or she will implement the plan and recommendations and/or work with other professionals.

9. What types of clients do you typically work with?

• Some financial advisors prefer to work with clients whose assets fall within a particular range, so it's important to make sure the advisor is a good fit for your individual financial situation. Ask how many households they work with as you will get an understanding of the attention they will give you.

10. Will you be the only advisor working with me?

• Some financial advisors work with clients directly, and others have a team of people that work with them. Ask who will handle your account and ask whether the advisor works with professionals outside his/her own practice. If yes, ask for a list of names, roles, and backgrounds.

11. How will I pay for your services?
    - You can pay for financial advice in several ways: through fees based on a percentage of the investable assets the financial advisor manages for you, commissions on the products the advisor sells, or fees for planning that are charged as a flat fee, hourly fee or ongoing fee, or a combination of all three. Your advisor should clarify how he or she expects to be paid for services rendered.
12. How much do you typically charge?
    - How much you pay will depend on your particular needs. The advisor should provide you with an estimate of possible charges based on the services that will be utilized and any products that will be used to implement your plan.
13. Do others stand to gain from the financial advice you give me?
    - Ask the advisor to describe any potential conflicts of interest. For example, advisors who sell insurance policies, securities, or mutual funds may have a business relationship with the companies that provide these products.
14. Have you ever been publicly disciplined for any unlawful or unethical actions in your career?
    - Ask your advisor if he/she has ever been publicly disciplined by any organization that regulates his or her conduct. You may find information about financial advisors through FINRA's BrokerCheck and the SEC's Investment Adviser Public Disclosure databases. At the end of the day the financial planner you work with will be the person that helps you develop your plan and acts like a coach to help you achieve your results. Find someone that is the right fit for you don't settle for someone that is the right fit for someone else.

Class 13 - Conclusion

- What is success for your financial life?
  - I would argue, it's not a number or a formula. There was a company that used to play a commercial with people walking around with a number on their head. The idea was the amount of net worth they needed to find success within their financial goals. I urge you to not define your success by a number and by someone's else's standards. Find your why, your calling, and develop your plan to pursue your goals and live a fulfilling live. May God bless you on your path to financial success!