FINANCIAL GROUP

Strength Flexibility Preservation

Financial Planning IN AN Uncertain World

FIVE STEPS TO A MORE CONFIDENT FUTURE

We can't control the world or the events unfolding around us. Nevertheless, those events can cause us stress. It's hard not to worry about our financial future when there's a pandemic, a recession, or a trade war.

Throw in a volatile stock market, and things get even worse. Add an increased likelihood that you may live longer than you think, and it's just gotten harder than ever to plan for a secure future.

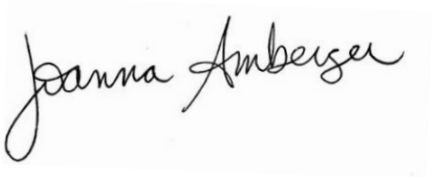
But that doesn't mean it's impossible.

As a financial advisor for many women and the LGBTQ community in Hawaii, we meet far too many people wondering if they are invested correctly or properly prepared financially. Tolerating financial stress is no way to live. We work closely with our clients to help them strengthen their positions and get on track to true financial security. However, we know that not everyone has access to the type of full-service advice that can create that level of confidence.

That's why we wrote this guide. It is our hope that this information can help you begin to get on track to financial security—the kind that helps you feel confident no matter what is going on in the world.

Don't hesitate to contact us with any comments or questions.

To your success,



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Prioritizing Your Financial Security

Achieving financial security isn't rocket science, but it does require you to roll up your sleeves and commit to that path.

It also requires starting sooner, not later. In fact, waiting to plan for a sound financial future may be the ***worst*** thing you can do. However, the reality is many people simply don't prioritize planning for their future. An American Institute of Certified Public Accountants survey of more than 1,000 adults found the following:

- 49% said they are not confident about how they will finance their retirements.
- 29% said they are not sure they will reach their retirement goals.
- 20% said they don't think they will ever reach their retirement goals.[1]

Even if you're quite successful today and cash flow is not a worry, things may feel different when you stop receiving that paycheck, or you sell your business and have to live on what you've set aside and invested.

People often delay planning for the future because they think it will be a monumental task, and it would be hard to find the time to tackle it. But it doesn't have to be that difficult.

Wes Moss, author of *You Can Retire Sooner Than You Think*, surveyed retirees to help identify the traits of those who were happiest with their retirements.[2] One of his key findings was that the happy retirees had spent at least five hours a year planning for retirement.

Note: That's five hours ***per year***; or 25 minutes per month. Can you spare an extra five hours per year to secure your future? When you consider what's at stake, the actual time you spend planning (whether on your own or with the help of a financial planner) could be one of the best investments you make. With this in mind, let's get to our five tips.

[1]"Less than Half of Non-Retired Americans Confident They'll Reach Financial Goals by Retirement: AICPA Survey." *AICPA*, American Institute of Certified Public Accountants, 12 Apr. 2017, www.aicpa.org/press/pressreleases/2017/less-than-half-of-non-retired-americans-confident-theyll-reach-financial-goals-by-retirement-aicpa-survey.html.

[2]Moss, Wes. *You Can Retire Sooner Than You Think*. McGraw-Hill Education, 2014.

STEP 1

Don't Forget to Play Defense, Too

> *"Someone is sitting in the shade today because someone planted a tree a long time ago."*
>
> — WARREN BUFFETT

Risk management is an important part of life. Most of us practice risk management every day:

- We put on our seat belt in the car
- We put on a helmet before jumping on our bike
- We wash our hands before eating

Why shouldn't that defensive behavior carry over to investing? It sounds basic, but most of the time, people don't pay enough attention to risk when it comes to managing their investments. Instead, they're usually focused on returns, which are only part of the equation. Even many financial advisors fall victim to that thinking.

As a result, few people have a plan to prepare for down markets, even though down markets are a perfectly natural part of the stock market fabric.

Unfortunately, many investors (and some financial advisors as well) don't have much experience with true risk management. We see it all the time in our practice. New clients come in who had been earning great returns during the bull market, only to give back too much of those gains when the market cycle changes.

Once we take a closer look, we often see that even though they thought they were diversified, they are overweight in one particular sector or area, which likely magnified their losses.

They may have started out with a more reasonably balanced portfolio, but time and gains shifted their risks. Instead of taking a disciplined approach and selling some of the winners to lock in gains and reduce risk, many investors (and some advisors) simply give in to the temptation to ride these trends far past the time they are likely to reverse.

Or, perhaps a client's previous advisor never looked at the accounts he or she didn't manage, leaving those assets unaccounted for. This can result in an unbalanced portfolio, with too many eggs in the same basket.

In many cases, investors expect the bonds in their portfolios to offset some risk. But these traditionally reliable income sources don't always act the way they have in the past. In times of stress, seemingly "safe" investments can suffer losses similar to stocks.

BECAUSE THERE'S NO CRYSTAL BALL, YOU NEED DISCIPLINE

It's important to realize that nobody has a crystal ball. While "forecasters" are all over the financial media, some research indicates they are no more accurate than a coin toss.[3] Once you have accumulated a significant nest egg, you can't afford to leave your wealth to chance.

Instead, we recommend you take the time to start managing your financial risk. This usually means getting better diversified and ensuring you are invested appropriately for your goals. Then, your investments should be managed with discipline. Here are some tips to do that:

- First, find out your true risk tolerance. To do this right, you should do more than just answer a few questions. A thorough, well-produced financial plan will help you understand what level of risk you are able to tolerate, both emotionally and financially.

- Invest according to that risk tolerance. Don't automatically strive for the highest market returns. Seek the returns needed to accomplish your financial goals, which may be less, and allow you to sleep better at night.

- Create an Investment Policy Statement or similar document to guide your long-term investment management. Establish rules for your investing so you keep your portfolio in balance, and manage it with discipline. A good financial advisor should create an Investment Policy Statement for you, or you can create one for your own use. The critical thing is to do it now, not in the middle of (or after) a market drop. That way, when the market gets rocky, your statement can serve as a reminder of the guidelines you set to help ensure you stay disciplined.

However you do it, financial security requires having a plan in place to play defense as well as offense. So take the time now to get your risk in line so you can strive to avoid large losses that take you further from your goals, not closer.

[3]Langlois, S. (2016b, January 20). Investors are better off flipping a coin than following Wall Street pros, data shows. Retrieved from https://www.marketwatch.com/story/investors-are-better-off-flipping-a-coin-than-following-wall-street-pros-data-shows-2016-01-20

STEP 2

Make Investment Decisions with Discipline, Not Emotion

> *"I will tell you the secret to getting rich on Wall Street. You try to be greedy when others are fearful. And you try to be fearful when others are greedy."*
>
> — WARREN BUFFETT

Did you know that most individual investors don't come close to realizing market returns? According to research reports, investors routinely lag the returns seen by the average index fund.

A study by DALBAR, an investor research firm, found that in a 30-year period when the S&P saw an average annual return of 11.1%, individual investors only averaged 3.69%.[4]

Put another way, individual investors only realized about one-third of the overall market's return. Why does this happen?

Even with something as basic as index fund investing, people fall victim to their emotions. It is a natural instinct at work. Truly, we are our own worst enemies—at least when it comes to investing.

[4]Duggan, W. (2019, December 11). Why Investing As An Individual Is So Difficult. Retrieved from https://www.marketwatch.com/story/why-investing-as-an-individual-is-so-difficult-2019-12-11

Average retirement investors tend to buy more when times are good, when everyone else is buying, and they feel safe moving with the crowd. Conversely, they tend to panic at market lows, continue to move with the crowd, and sell at the worst time, locking in their losses and preventing them from participating in any rebound. They may then keep their money on the sidelines until they feel safe investing again. By that time, though, the market may have recovered some or most of their losses. They would have been better off if they had kept their money invested and waited it out. This vicious cycle of letting emotions drive investing decisions often results in these diminished returns.

AVOID EMOTIONAL INVESTING MISTAKES

To achieve financial security, we need to break this cycle.

To do that, you need to educate yourself on market cycles and behavioral economics. It is definitely possible to control these behaviors, but it does take considerable time, commitment, and discipline. It is not easy.

As an alternative, you can use an experienced financial advisor to help guide your investment decisions. Just be sure to hire an experienced firm with expertise in behavioral finance so they can help you avoid expensive emotional mistakes. A good advisor should help keep your emotions in check, taming your excitement in the good times and your fear in the bad times.

Whatever you do, it is vital that you act based on discipline, not on emotion. Otherwise, you risk making moves that could hinder you from accomplishing your financial goals.

STEP 3

Avoid Spending Mistakes

Emotion is not just a threat to your money in investing, either. Quick spending decisions based on emotions, or lacking research, can also be hazardous to your wealth. These include:

- overspending on a bigger house than you need
- buying a vacation home without considering all the other costs like property taxes, insurance, maintenance, and managing it when you are away
- buying new cars that quickly depreciate, and replacing them often
- buying a timeshare new (instead of picking it up for a fraction of the cost on the secondary market)
- signing up for ongoing service contracts or insurance policies without checking around for pricing first, which can create a drain on your wealth today and tomorrow

These types of actions can lead to a snowball of expenditures that push you further away from your long-term goals. In other words, these actions can all create financial regrets.

To achieve true financial security, you want to apply discipline instead of emotion to all of your financial decisions. That means fighting emotion, but also avoiding just spending on auto-pilot. How can you do that? Fortunately, it's not that hard. Just realize that every dollar you have can either work for you (in savings or investment) or it can work for someone else (if you spend it). You've worked hard for your money, so why not expect it to work hard for you?

So pay attention before you buy. Shop around a bit. Especially on big items, a few minutes of internet research can often yield large savings.

Other examples of areas where some advance research can make a difference include the following:

Social Security. Many people automatically file for Social Security benefits when they retire, without thinking. Had they planned a strategy in advance, they may have collected more each month for the rest of their lives. In fact, just by waiting to file until you are 70, you can increase your Social Security payments by 8% for each year that you wait.

Catch-Up Contributions. Another common mistake is not taking advantage of "catch-up contributions" for your retirement accounts. Many people have never heard of this, but the catch-up contribution provision was created by the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) so older individuals could set aside enough savings for retirement.

Basically, it allows you to set more aside each year in your retirement plan, starting at age 50. This applies to most retirement accounts, including your 401(k), 403(b), 457, or Thrift Savings Plan. An additional catch-up contribution is allowed for Health Savings Plans, too.

There's a lot to remember, and that's why for many people, it pays to use an advisor. You'll have an objective professional helping you find the best strategy and double-checking to make sure you don't miss something significant. This step is so important to us that our firm includes free help with any financial decision, even looking around for the best deal on mortgages, landscape services, or home and car insurance. We include that service simply because it can make such a difference in helping people build wealth.

So for many busy people, it's worth considering if an outside professional can help you build a financial plan, and then stick to it over time. That advisor should also help you act with discipline, not emotion, helping you avoid expensive investing mistakes or big purchases that you may later regret.

STEP 4

Prioritize Your Health and Plan for Healthcare

> *"The greatest wealth is health."*
>
> — VIRGIL

Financial problems are one thing, but health problems can be even scarier. Serious health problems can harm your quality of life far more dramatically.

That's why one of our biggest pieces of advice has no dollar value attached: prioritize staying healthy. There's really no better advice for all of us as we age. So that usually means:

- Prioritize healthy habits. For most people, that encompasses adding more vegetables and fruits in your diet, reducing sugar and processed food intake, exercising more, and getting enough sleep.

- Invest in your health. If any part of your health is not where it should be, consider investing some money to create some new habits. Not exercising daily? Invest in a fitness tracker to make sure you reach daily step and activity goals, or consider buying home gym equipment to make exercise more convenient. Not eating right? Look for online healthy cooking videos or other resources to help you transition to a better diet.

When we get and stay as healthy as possible, we benefit financially: fewer doctor visits, fewer tests, fewer prescriptions, and fewer co-pays. But beyond the money factor, staying healthy makes literally everything else in life easier.

PAYING FOR HEALTHCARE IN RETIREMENT

Healthcare is considered one of the largest expenses in retirement. It has been estimated that the average retired couple will pay $285,000 for medical expenses after age 65. That estimate does not even include the cost of long-term care.[5]

Given the potential for enormous expense, it's critical to be prepared. That can require some dedicated financial planning to project your needs and come up with strategies to help manage this cost.

Here are some strategies that can help:

- If you are still working and eligible, opening and funding a Health Savings Account (HSA) can help you put aside funds that can grow tax-free and be used for future costs.
- Take care to sign up for Medicare at the right time to avoid penalties.
- Long-term care insurance can be considered to fully plan for care in your later years.
- Social Security might be a source of additional funds to pay for some of these costs.

Whatever you do, the important thing is to take action now to improve your health. Then be sure to do some planning so you are not caught off guard with large expenses later.

[5]Fidelity Benefits Consulting estimate; 2019. Estimate based on a hypothetical couple retiring in 2019, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual expenses may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

STEP 5

Make Sure You're Getting *Real* Financial Advice

> *"No enemy is worse than bad advice."*
>
> — SOPHOCLES

Wall Street is notorious for many things, conflicts of interest being one of them. That means the person giving you advice may be steering you into products that put more money into their own pockets than yours. How widespread are these problems?

Sadly, very! According to a 2015 report released by the White House Council of Economic Advisers (CEA), conflicted advice costs American retirement account holders more than **$17 billion**—every year.[6]

Fortunately, you can avoid these conflicts of interest by getting educated, so you will know what to look out for. Here are five key questions to ask any professional you're considering (or already using) for financial advice:

Are They a Legal Fiduciary? There are presently few limits on who can call themselves "financial advisors." The person you're talking with might be giving you high-quality, independent advice. Or they might primarily be a product representative who passed their licensing exam and is trained primarily to sell you certain products. How can you tell the difference? Ask if they are willing to act as your legal fiduciary, and get that in writing. Fiduciaries are legally required to put your interests first. If they don't, you have legal recourse. This is a significant protection you should take advantage of, so avoid working with any financial advisor who won't commit in writing to act as your legal fiduciary.

[6]THE EFFECTS OF CONFLICTED INVESTMENT ADVICE ON RETIREMENT SAVINGS. (2015, February 1). Retrieved July 2, 2020, from https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_coi_report_final.pdf

Are They Fee-Only? If your advisor gets paid on commission for any service, that means there's a potential conflict of interest. Instead, you can look for advisors who don't accept commissions at all. These are called Fee-Only Advisors. You pay a fee-only advisor only for their advice, just like you pay your accountant or attorney.

Be careful though; fee-only is different than "fee-based." Fee-based advisors charge fees part of the time, and then charge commissions at other times. The problem is the onus is on you to determine when you're getting advice and when you're getting sold a product. You can avoid this issue altogether by limiting your search to fee-only advisors.

Do They Have Enough Experience? Even with a fee-only fiduciary, there's no guarantee you'll get good advice. So you still need to look for someone with the training and experience to help you achieve the best results.

Look for someone with at least 10 years of experience to make sure they have seen and weathered different market climates. When it comes to handling your money, we don't believe that just a few years of experience in the field is enough. The more market turbulence the advisor has seen, the better equipped he or she will be to steer you on the right path for whatever may come next. Also, if you're a business owner, you'll probably be best served by hiring an advisor who is also a business owner (versus hiring someone who is an advisor employee of a large firm). They will likely understand your challenges better, since they have to deal with the same issues that you do.

Have They Earned the CFP® Credential? Along with experience, you want someone who has the right education and proven knowledge. The best way to ascertain that is to look for individuals who have earned the CERTIFIED FINANCIAL PLANNER™ professional designation, which requires a specific course of study, passing of exams, and agreement to follow a strict code of ethics. This also helps ensure that the professional you choose stays current on tax law changes and other important aspects of personal financial management.

On the other hand, beware...there are many designations that do not require significant study, experience or thorough testing. In fact, some require just the payment of a fee, self-study and completing a multiple choice exam to allow the advisor to use those initials behind their name. So be careful...some credentials are meaningful and some aren't. Fortunately the US Securities and Exchange Commission maintains some helpful resources including a list of Accredited Designations (click here to view). You can also look up any financial designation here to learn more about its requirements.

Are They Independent? Aside from usually charging more to pay for all that expensive advertising, the brand name financial advisory firms are often public companies. In that case, their first loyalty is to their shareholders, not to you. These companies are normally product companies first and foremost, too. They will try to sell you the products that make their shareholders more money.

Many people hire advisors without even being aware of these distinctions. We believe that is dangerous, so please do not skip this step. Before you hire someone (or even if you already have an advisor), ask them all these questions. A quality advisor appreciates educated clients and will understand your concerns. Any advisor who acts offended or is not willing to discuss these issues may be providing you with a valuable red flag.

If your advisor can't answer "Yes" to all these questions, we suggest you keep searching until you find someone who can.

Putting It All Together

We've had a look at five steps you can take to increase your financial security. One key takeaway is that it's critical to act now, not later. Those who assume there's plenty of time to prepare often come to regret that decision.

If you already have an advisor, we recommend meeting with them and using this book to guide your conversation.

If you don't have an advisor yet, or if you're not sure you are working with one who is right for you, please feel free to schedule a no-obligation financial review to see if we can help you achieve your goals.

NO-STRINGS-ATTACHED FREE FINANCIAL CHECKUP

Wondering if we can help? At 3 Financial Group, we offer a complimentary financial checkup, so you can see if we're a fit for you. If we are, that's great and we'll present you with options on working with us in the future. If it's not a mutual fit, there's no obligation at all and you'll leave with fresh insights on your financial situation and areas for improvement.

GET A COMPLIMENTARY FINANCIAL CHECKUP

WHAT HAPPENS IN THE COMPLIMENTARY FINANCIAL CHECKUP?

The purpose of the checkup is to take a look at your entire financial picture and identify areas of concern or vulnerability. First, we'll talk about your goals and values, so we can establish a baseline for your financial plan. Next, we'll look at your investments, sources of retirement income, debt, pension, social security, and other parts of your financial spectrum, to see your starting point. Then we'll review what will need to happen for you to achieve your goals, and give you some tips on how you can improve your situation.

Through this process, you'll also find out if we can be of further help to you.

WHAT HAPPENS AFTER?

There are no strings attached, so we won't spam you or put you on a call list. We'll only call you if you want us to! We may send you an occasional email, but you may opt out at any time.

ABOUT 3 FINANCIAL

3 Financial is a financial advisory firm serving Hawaii's women and LGBTQ community since 2007. Our fee-only, fiduciary, holistic approach helps ensure that you receive unbiased, objective advice. Our planning-intensive approach helps you make sense of your financial life so you can achieve your dreams.