

Financial Planning: Everything You Need to Know About Your Money (Almost)

The guide to managing your finances, in good economies and bad. (In a word, be patient.)

BY PAM GEORGE

Benjamin Franklin knew what he was talking about when he said, “A penny saved is a penny earned.”

“The power of compound interest is something you can never recapture,” says Carol E. Arnott, a certified financial planner with Greenville Financial Group in Greenville.

Imagine Franklin with access to a Roth IRA. There are so many financial products designed to help you save and grow your investments, selecting the ones that fit your goals can be complicated. Now that we’ve watched the Dow plummet to record lows and watched financial markets drop around the world, it’s more important than ever to manage your money prudently. Despite the news, there are tremendous opportunities.



We asked some of the state’s best financial planners for their advice. The initial panic about the economy may have faded, but good counsel is good counsel. Here’s what they had to say.

HOW TO FIND A PLANNER

Where do you start? Right here. Step by step:

Do some digging. Ask friends and family if they’re happy with their financial planner. If you’ve just moved to an area, search the Financial Planning Association’s list of Certified Financial Planners (www.fpanet.org/Membership/PlannerSearch). With names in hand, visit www.state.de.us/securities/index.htm to determine if any complaints have been filed against him or her.

Many planners today have specialties. Along with offering comprehensive financial planning services, for example, Carol E. Arnott helps divorcing spouses with their settlements. Some planners only take clients of high net worth. Others work with retirees. You'll save time if you ask before scheduling an appointment.

When you meet with the planner, request details about his or her background, says R. Clifford Berg. Ask about credentials and what it took to receive them. Was it a weekend course, or an intensive program? Also ask if they belong to professional societies.

Ascertain the fee. Don't be afraid to talk about compensation. "You need to establish the rules of engagement early on," says Cynthia Hewitt.

Many financial planners have a fee for preparing a financial plan, which will vary depending on the complexity of assets and the client's goals. The client then has the option to implement the plan with that firm for additional compensation. Some planners charge a management fee, which is often an hourly rate or a percentage of assets under management. They take no additional compensation from the sale or the management of a product. Other planners work on commission. They may or may not charge a set fee for the plan.

Which one is for you? It depends in part on your comfort level, Hewitt says. It also depends on the anticipated account activity and whether it's more cost-effective to pay a fee rather than commissions.

Discuss the available products. Some planners only have access to a company's products or company-approved products. They can only offer what is in-house. Others have greater flexibility and a wider choice.

Look for warning signs. Head for the door if the financial planner:

- is not a good listener;
- does not respect your risk tolerance;
- tells you that it's OK if you don't understand the investment because he or she will take care of it;
- brings up offshore accounts or investments in exotic locations;
- launches into a hard sell;
- promises above-market rates of return;

- indicates that an investment is guaranteed—a word many firms forbid their planners to use;
- does not discuss your goals.

Page 2: Planning Through the Decades

Jon D. Walton, CFP, CLU
Financial Planner, Independence Wealth Services

Walton, who entered the financial planning industry in 1980, specializes in wealth management, which includes retirement, estate and business -succession planning. He is an adjunct faculty member at the University of Delaware, where he teaches financial planning classes to students going for their Certified Financial Planner certificates.

In these economic times: “Money is just a tool. Your risk should be in line with your goals. Invest with a purpose. Now that we’re in this, it’s especially important to remember what your purpose is.”



PLANNING THROUGH THE DECADES

You’re never too young or old to start implementing a financial plan. Here is a guide for working adults.

In Your 20s Now is the time to reduce any credit card debt. “Credit card interest will eat you alive,” says Frederick J. Dawson.

Put whatever money you can into a retirement fund. Peni G. Warren wishes that fact was taught in school.

Carol E. Arnott recommends making monthly contributions to an IRA rather than making a lump sum contribution at year’s end. That way you buy into the market at high and low prices, which average out. If you only contribute once a year, you might hit a low market.

In Your 30s If you haven’t already, you’re probably looking for a house to buy. In the old days, buyers bought the biggest, most expensive house they could afford and “strapped it on,” Dawson says. That philosophy is changing. “I don’t know that going forward personal residences will be the investments they used to be,” he says.

People are getting back to the ABCs of financial planning, Warren says. “Look at what you can afford and look at the worst-case scenario if something happened to you.”

Plan for your children’s education and keep putting money into your retirement accounts. “Tell grandparents to stop buying stuff for the kids and start contributing to their 529 college savings plan,” Warren says.

The rule of thumb is to keep three to six months’ worth of expenses in some kind of liquid interest-bearing account in case of emergency. But you may need more or less money depending on your lifestyle.

In Your 40s Increase contributions to your retirement account. Why? People are living longer, healthcare expenses are going up and “pensions are dinosaurs,” Arnott says.

If you’re considering an early retirement, remember that if you retire at 50 and you live past 80, your money has to last more than 30 years.

Learn from the past. Speculators in the 1990s created a soaring stock market that crashed when the tech bubble burst. Speculators in the real estate market, low-interest rates and loose lending practices drove the price of housing up until that market crashed. In the summer, commodities took a leap.

All this is a case for diversifying your portfolio, which once meant stock and cash. If you opt for investments in commodities, look for an expert. “It’s not for the faint of heart,” says Sherman L. Townsend. “It’s highly speculative and quite volatile.”

Bonds create some stability to smooth out the volatility, Townsend says. There are different types of bonds, however, so you will again need an expert’s advice. Warren recommends bonds that are well diversified.

Real estate, meanwhile, might include private residences, rental properties or an investment in a real estate investment trust.

In Your 50s It’s time to get really serious about retirement. “Sock away as much as you can and put a clamp on your wallet,” Dawson says.

By now you should have pictured your retirement so you know how much you’ll need. But if you haven’t, ask yourself:

- Do I plan to travel mostly the first year or for many years after retirement?
- Do I plan to downsize to a smaller home?

- Can I make sacrifices, such as selling one of our two cars?
- Is it important for me to leave money to my children?
- Do I plan to work part time? Am I willing to in order to maintain my lifestyle?

Too many 50-somethings start to bank on safe investments, such as savings accounts and CDs. “The big mistake people make is getting too conservative,” Arnott says. “The risk is not that you’ll lose your money. The risk is losing purchasing power.” Low-interest accounts are barely keeping pace with inflation.

Though people in high tax brackets may benefit from maintaining a mortgage, most planners prefer that clients have no mortgage going into retirement.

Many 50-somethings’ parents are in their 70s. Look into long-term health insurance, both for your parents and for yourselves. “It can be a tremendous expense if you have to go into a facility,” Warren says.

Finally, make sure your children are starting down the right financial path. “By the time a person is 25, you can see a life pattern as to how they’ll manage money,” Townsend says. “Unfortunately, most are spending more than they’re earning.”

Page 3: Managing a Windfall

Carol E. Arnott, CFP, CDFA, CHFC
Greenville Financial Group

In addition to helping individuals, couples and business owners, Arnott helps people wade through the financial ramifications of divorce settlements. A frequent speaker, she's appeared on Fox 29's morning show and she regularly writes columns for local publications. Arnott was named Women in Business Champion of the Year for 2008 by the Small Business Administration's Delaware Office.

In these economic times: "Don't panic. Turn off the 6 o'clock news. As hard as it is to do, get the emotion out of the process because that's what's driving the market right now. Then revisit your portfolio to make sure your plan is in line with your goals."



MANAGING A WINDFALL

Who hasn't imagined winning the lottery? What would you do with the money? Even the thought of a \$10,000 inheritance or insurance settlement can make you write a mental wish list.

Few, however, are prepared to cope with receiving a lump sum.

"No matter the size of the windfall or where it comes from, it's often all gone within three years—or some 95 percent of it is gone," Dawson says.

Here are some tips to help you get some bang from that buck.

Consider the tax implications. If you win the lottery, expect the government to come calling. That's also the case with many other lump-sum windfalls. Find out if you need to set aside money to pay Uncle Sam. Otherwise, you may need to cash into savings or IRAs when you've spent the windfall.

Don't rush into anything. Refrain from going shopping until you create a game plan. "Put it somewhere where you can earn a little bit of interest, and think about what you want to do with that money," Berg says. "It does change lives."

Keep in mind that the Federal Deposit Insurance Corporation provides deposit insurance that guarantees checking and savings deposits in member banks up to \$100,000 per depositor. So if you're single, you'd need to split your \$200,000 inheritance check between two FDIC-member banks.

Pay down any bad debt. Unlike your mortgage or a home equity loan, bad debt is non-deductible. Consider your credit card debt, for instance, or a car loan with a high interest rate. Pay that off if you can.

For those who can't keep their credit cards in their wallets, Townsend takes it a step further. "Take your scissors and cut your credit cards in half," he says. "Otherwise you'll be right back where you were. It takes discipline."

Discretion is the better part of savings. Won the lottery? "Don't tell anyone," Dawson says. "You laugh, but you'll find out how popular you are. Schemers come out of the woodwork."

He recalls the column he wrote on what to do if you received a lump sum. Suddenly, he received letters from petitioners who believed he had access to people with wads of cash. "It was heart-wrenching," he says. "It was bizarre."

Set goals. Jon D. Walton is a big fan of planning for the future. He's keen on short, medium- and long-term goals.

Your goals will depend on the dollar amount. Nearly everyone can find a way to spend \$10,000. A \$400,000 insurance settlement will require more thought and care.

If you're talking about \$10,000, don't deny yourself after paying off bad debt and planning for taxes, Walton says. But if you could put even a portion of a modest windfall into a worthy goal such as educating your child, do so. Larger amounts require long-term goals, such as retirement planning.

"You've done yourself a big favor if you address a lump sum this way," he says.

Page 4: The Delaware Advantage

Frederick J. Dawson, ChFC, CLU
Vice president, Bassett, Brosius & Dawson

Known for his musical abilities and volunteerism, as well as his financial acumen, Dawson has appeared on CNBC's "Money Talk" and the Financial News Network's "Financing Your Future." He's also a frequent guest on radio shows. He's received the Jefferson Award for Public Service and his band, Club Phred, has raised about \$875,000 for charities.

In these economic times: "Unless you need all your money right now—and most people don't because they'll need it 10, 20, 30 years from now—stay put. If you look at the markets over time, from '29 to 2002, which was almost as ugly as it is now, they always come back. So maintain your investments in a high-quality, diversified portfolio that's managed professionally."



THE DELAWARE ADVANTAGE

Known for its corporate-friendly climate, Delaware is also a trust-friendly state. Delaware does not place time limits on a properly structured (or perpetual) trust. Assets transferred to an exempt dynasty trust will benefit descendants without incurring an additional gift tax, estate tax or generation-skipping transfer tax.

There is no state income tax on income accumulated in an irrevocable trust, provided no beneficiary is a Delaware resident. There's also no state income tax on capital gains earned by that trust.

Delaware also does not tax trust income distributed to nonresident beneficiaries. (The income is subject to the laws of the beneficiary's state of residence.) Nor does Delaware assess a tax on the value of public and private securities, bonds, units, copyrights or other intangible property held in a trust.

More Great Planners

R. Clifford Berg, CLU, ChFC, AEP

Vice President, Financial House

Active in the industry since 1974, Berg has served as president of the Delaware chapter of the Society of Financial Service Professionals and of the National Association of Insurance Financial Advisors on both the state and county levels. He's a past president of the Estate Planning Council of Delaware and currently serves on the national executive committee of NAIFA. He'll be the national president for the 2009-2010 term.

In these economic times: "Stick with your original game plan, unless your goals have changed, and communicate with your planner. If you don't need the money for awhile, you shouldn't be selling out now. The market will come back. To take a loss now makes absolutely no sense."

Cynthia Hewitt, CIMA, CRPC

First Vice President, Investments and Wealth Advisor Global Wealth Management Group, Merrill Lynch

Listed among the top 20 female financial advisors in 2004 by Research Magazine, Hewitt was recently named one of "America's best financial advisors" by R.J. Shook in his book "The Winner's Circle." For the past three years, she's been listed on Barron's Top List of Women Financial Advisors, and she is a founder of the Fund for Women in Delaware.

In these economic times: "Keep things in perspective, if possible. Despite the negative short-term developments, this too shall pass. Things happen. They're scary. But they don't last forever. Be alert to opportunities, if you're in a position to do so."

H. Murray Sawyer Jr., JD

President, Westover Capital Advisors, LLC

In October Sawyer was named by Worth magazine as one of the 250 top wealth advisors in the country. A practicing lawyer for 35 years, Sawyer managed the pension and profit-sharing funds for his own firm, where he spent some time as a trust and estate planner. He was so good at it, wealth management became his primary focus, thus Westover Capital Advisors was born in 2000. "I use the way you're trained to think as a lawyer to better serve my clients."

In these economic times: "Avoid volatile stocks and undue exposure to equity markets while they're falling." Consumer staples such as healthcare, utilities and food companies generally perform well, no matter what the economic climate. When the economy goes bad, cut back investments in risky stocks such as financial companies.

Sherman L. Townsend

Peni G. Warren

The Townsend-Warren Group, Merrill Lynch

As in real estate, many financial planners team up within companies. Together, Townsend and Warren offer a combined 60-plus years of service. Townsend, who started his financial services career in 1971, is one of the founding members of the Delaware Community Foundation. He's been a University of Delaware trustee since 1988. Warren, who has 26 years of financial consulting experience, joined Merrill Lynch in 1982.

In these economic times: "The key thing is to maintain sufficient liquidity to meet your needs for the next 12 to 15 months," Townsend says. "But if you are a true investor, there are a lot of new opportunities out there. You need to have a three- to five-year vision. There will be a change in the leading stocks. And there are lots of companies, despite the economy, that are still making money every day and paying dividends."

Page 5: What's in a Name / Alphabet Soup

WHAT'S IN A NAME

When it comes to titles, most pros will answer to financial planner. Partly that's because the Certified Financial Planner designation, awarded by the Financial Planning Association, has become a gold standard. Yet some professionals prefer financial and investment consultants, financial advisors or wealth managers. The latter most often refers to planners whose clients are individuals of high net worth, but that's not always the case.

"Wealth is any discretionary money that can be invested," says Cynthia Hewitt, first vice president, investments and wealth advisor with Merrill Lynch in Wilmington. "They help create wealth and preserve wealth."

Estate managers, which are highly specialized, are often lawyers or they work with lawyers. An accountant may also get involved with financial planning.

ALPHABET SOUP

Credentials, especially those held in high esteem in the industry, indicate not only that the planner is serious about the profession but that he or she is also continuing an education with specialized designations. Here are a few of the most common letters you'll see after a name.

AEP accredited estate planner, given by the National Association of Estate Planners & Councils

CFP certified financial planner from the Financial Planning Association

CLU chartered life underwriter from American College in Bryn Mawr, Pennsylvania

CHFC chartered financial consultant from American College

CIMA certified investment analyst, offered by the Association of Certified International Investment Analysts

CRPC chartered retirement counselor from the College of Financial Planning

CDFA certified divorce financial analyst, offered by the Institute for Divorce Financial Analysts

Beware of designations that refer to planning for seniors. The industry has cracked down on planners boasting senior planning credentials to such an extent that some broker-dealers won't allow planners to use designations with the word "senior" in them.