RIA Advice

••••••• The Financial Wellness Evolution: The Flow from Soil to Harvest

> ***?The soil of a man?s heart is stonier, Louis. A man grows what he can, and he tends it. ?Cause what you buy, is what you own. And what you own? always comes home to you.?*** *-Jud Crandall, Stephen King?s Pet Sematary*

More than almost anything else that defines you, financial choices made over a lifetime forge not only the path you travel today, but also the ongoing integrity (or lack thereof), of that road you take into the future. Your overall financial health may flow through to multiple generations long after you?re gone, so it?s worth understanding that money ? your actions, how you treat it, is much bigger than any one individual. The ripples of your current decisions have potential to carry through and buoy the lives of others or act as an undercurrent and pull down everyone around you. Your choice. **I define financial wellness as perpetual monetary success and pathos which leads to security and ostensibly generates inner peace; the flow is uneven as stages of wellness ebb and flow along channels of a human existence.** It?s never perfect. However, there always exists a strong center or stasis that like a rubber band, an individual snaps back to after a deviation from self-defined financial norms. In other words, wellness isn?t pretty, but there?s beauty in its consistency. It represents a tumultuous soup of philosophies, experiences, ego, habits, perceptions and attitudes. Finances bolster with the victories, falter with the setbacks. The challenge is to assess and maintain alignment over time. As I pondered financial wellness and how to effectively communicate the concept, I thought of a message Randy Lemmon the legendary host of Houston?s KTRH 740am Garden Line, stresses to his audience almost every weekend mornings:

> ***?All gardening success starts with healthy soil. You?ll never come to fruition by planting a $5 seed in a 25 cent hole, but you?ll always succeed with a 25-cent seed and a $5 dollar hole.?***

Hmm. No wonder Randy helps people transform lawns and gardens into robust, thriving crosspatches of deep greens, vivid snaps of colorful flowers and healthy bounties of fruits and vegetables. The genesis of abundance in all you seek to accomplish from a financial perspective, begins with a foundation, the soil, or the *SOUL of who you are* - inside thoughts and outside actions. Beyond being dirty paper *(did you know a paper currency carries more germs than a household toilet? A report from the Southern Medical Journal outlined that viruses and bacteria can live up to 17 days on bills),* a relationship with money can be a source of values, good or bad, **that evolve from a process I call *Financial Wellness.*** Financial Wellness represents a holistic state of being with money health at the core. From that core flows, sentient and intellectual, a process owned solely by the individual. It?s a make or break kind of relationship. Either you respect money or you don?t. Either you?re a saver, or a big spender. On occasion, an effective planner can break through especially if it?s an educational deficiency, but it?s rare when the soil is poor because well, dead is dead.

> ***?The barrier was not meant to be crossed. The ground is sour.? -*** *Victor Pascow*

In the late 1980?s movie *?Pet Sematary?* a well-meaning doctor relocates his young family to the bucolic small town of Ludlow only to discover that it holds a dark, disturbing secret. A pet cemetery *(spelled sematary on a faded sign painted by broken-hearted children and hung at the entrance),* seems innocent enough. However, farther on the path lies an evil circle, an ancient burial ground once used by the Micmac Indians. In this not-so-hallowed ground, it?s been documented by the town?s tender-hearted curmudgeon portrayed by Fred Gwynne of ?*The Munsters?* fame, exists the spark to eternal life or something that resembles it. You see, throughout the years, adults have buried their loved ones, children interred their dead pets, only to witness their eventual resurrection. However, those who did come back weren?t quite right. As described ? loved ones were malevolent carcasses of their former selves. They were just *?a little dead,?* and plenty violent. •Almost as if the primary mission of those revived from the soil was to punish the ones who buried them in that place and disturbed the natural order of things. It?s life and death. Not life, death and life again. I?ve been fortunate to orchestrate and write character dialogue for several popular science fiction television dramas and movies, so Stephen King?s horror saga of an ancient burial ground ?gone rogue? has captured my attention for years. It made me realize how crucial soil quality is to everything, I guess. Even financial wellness.

> ***?Well sometimes, dead is better. The person you put up there ain?t the person that comes back. It might look like that person, but it ain?t that person, because whatever lives on the ground beyond the Pet Sematary ain?t human at all.? -*** *Jud Crandall (played by Fred Gwynne)*

Really makes you think about Financial Wellness, doesn?t it? Well, it will. I promise *(hope).* The process is a flow from soil to harvest with steps along the way. But what defines them? Let?s walk the path together *(and avoid ancient burial grounds, if possible).*

Step One: The Financial Wellness process starts with healthy soil:

Create or identify your core money philosophy and put it in writing. Think back. What were your first lessons or observations about money? How have they affected your thoughts or actions?

How have parents, grandparents, siblings filtered your perceptions? Personally, my parents as spendthrifts, leaving nothing but liabilities upon their deaths, abject, chronic poor savers, and firm non-believers in mitigating risk through the use of insurance, left an impenetrable impression on me and how I address money issues with myself and my offspring. **In other words, their extremely poor money habits morphed into invaluable lifelong lessons. Enough to motivate me to be a polar opposite.** In my family you weren?t allowed to question elders; unfortunately I never understood the origins of such negative behaviors outside of intelligent guesswork at best. A relationship with money is an emotional, intimate construct. Good or bad. To understand the composition of fiscal soil, an individual must be willing to be brutally honest and document the inner- most thoughts about money and financial matters, otherwise nothing of value will germinate. A core money viewpoint should be simple to follow and refer to often. It?s pretty much spilling your inner beliefs, how and which money habits stuck and what motivates you to follow or change them in the present. Remember, I referenced that complication wasn?t a concern. Difficulty, which differs, is healthy par for the course. The exercise of outlining and cogitating over a personal money philosophy is far from a simple chore as it requires brutal self-honesty and awareness. A personal philosophy about money comes down to one or two sentences replete with words that clearly outline your passion to protect you and your own, the tenets you feel most passionate about, and the quirks. There?s always the quirks. **What are the quirks around money that sour your soil?** Include in the body of the philosophy, a uniqueness or quirkiness you?ve observed about your personal money habits which differs from those around you. I call this an ?imprint.? For example, it could be an ongoing purchase rooted in family tradition or an experience you buy that connects you to a loved one or cherished memory. For example, as a young boy raised in New York, my father had me experience some of the finest Italian restaurants in the city. On weekends, it was a long-term ritual to break bread at tables set with fine linens and surrounded by mahogany-laden walls. These establishments with their rich, ethnic aromas and magnificent meals (I was a healthy eater and required pants from the HUSKY department), left a lasting impression on me and my spending habits. Every year, I assess my personal financial oddities. The worst was my irresponsible overspending on restaurants ? a hefty $15,000 over 12 months which I immediately rectified three years ago. Today, I still enjoy eating out however, my costs have been reduced by two thirds and I?ve learned to remember my father but remain financially aware. You see, my dad was a respectable cook. I?ve learned to re-create most of his Italian recipes in my own kitchen and be fiscally responsible at the same time. **How can you assure that you and future generations maintain soil integrity?** Soil requires nurturing and cultivation to become and remain healthy. Per gardening expert Randy Lemmon, adding organic matter to soil characterized by poor aeration and inadequate drainage can work magic. In many areas of Houston where soil is more conducive to making clay pots than growing vegetables, soil health is crucial to their survival. **Children, even as early as the age of five, can be cultivated to learn smart money habits.** Early on, we can teach the benefits of concepts like save, share, and spend to teach youngsters the benefits of allocating coins (at first), for now, for later, and for others. My favorite products are available at www.moonjar.com. •The standard Moonjar Three-Part Money Box is an inexpensive teaching tool for youngsters. It works to help children understand that there?s a discipline to money and it isn?t all about saving. As a small child, my daughter would love receiving three quarters to place in the money box compartments. There were several occasions she would add more to SAVE over SPEND and I?d ask her what motivated her to do so. From there, discussions, as easy as they can be for a child, blossomed and continue today, ten years later.

Step Two: Seeds are ready for planting:

Seeds are tiny powerhouse containers of life if handled properly; they spread roots deep into soil and allow growth to break above surface. And with money, the seeds are ridiculously rudimentary. They are sown with simple knowledge of the concepts of debt and saving. **The basics of saving:** ***Pay yourself first*** ? This tenet is as basic as money skills get. Before bills are paid, before the fun stuff, set aside a percentage of your income in a savings or investment account. It?s Money 101. ***Set it electronically*** ? From each paycheck or a checking account on a monthly basis, establish electronic auto-pilot that debits directly and funds your emergency and long-term investment vehicles. ***Create a savings rule and stick to it*** ? I?ve always stuck with an age-based, tiered savings strategy. You should work with a Certified Financial Planner or fiduciary to create a personalized approach however, my rule has been used by clients and their children for over two decades:

> *Ages 20-30:• 15% of gross monthly income electronically set aside first.Ages 31-40:• 25% of gross monthly income. Ages 41-65 (or full retirement age): 30% of gross monthly income.*

If or hopefully when you graduate to ?empty nester,? it may be necessary to accelerate savings to fund retirement. **The Tao of debt:** Think of excessive debt, especially auto, credit card and student loan obligations, as seed killers. The rules you implement to contain debt are crucial, even mortgage. I consider debt management of greater importance than saving as debt drains the soil of a wealth of essential nutrients. Thankfully, I have had opportunities to reap the harvest of debt containment. Unfortunately, I?ve killed a wealth crop or two as well by allowing bad debt decisions driven by emotions, tempt me to stray from my boundaries. Never again. I understand mortgage debt is considered ?good? debt by the masses. **However, never discount the distress that thrives from maintaining too much house, overall.**•When mortgage payments along with taxes and insurance, exceed 35% of monthly gross income, I witness households initiate spending reductions or worse, increase credit card usage to meet expenses which limits their ability to enjoy their lives or force them to stick with jobs they dislike. **It?s like they?re held captive financially by four walls and a roof.** That?s why I believe a mortgage debt should rarely exceed twice annual gross salary. For example, a couple earning $100,000 a year has a $200,000 upper mortgage limit. Establishing boundaries allows breathing room for seeds of wealth to take root. Non-mortgage debt bandwidth requires attention, too. If you can?t avoid auto or credit card liabilities, attempt a rules-based approach to keep debt manageable. Maintain the monthly outflow on these expenses to 10% or less than monthly gross (before taxes) income.

Step Three: Monitor and Celebrate Growth:

At this stage, green shoots emerge. Hard work and discipline are beginning to show rewards. Your money philosophy supports a strong saving and debt management regimen. Here?s your growth or accumulation cycle to nurture, fine-tune and celebrate. But how? ***Get to know who you are from a risk perspective; understand the forces that jeopardize wellness:*** •There are market cycles which warrant caution. Like today where stock market valuations as represented by the Shiller P/E ratio stand at over 29X, a level that compares only to the tech bubble of 2000 when real price/earnings steeped at close to 44X.••A•balanced•portfolio•approach•where•you•invest•in a mix of stocks, bonds and cash will be easier to stomach than a 100% stock portfolio, especially now. How do you feel in your gut about risk? Do monetary losses make you queasy? How are you with risk in your daily life? Do you always buckle up? Are you adventurous on vacations? Naturally, a financial partner can help you narrow your feelings down to a portfolio that suits who you are. However, there?s an internal barometer to attend to and never ignore regardless of how much risk the financial experts recommend you take on. Proper insurance planning is important to care for others who would be negatively impacted financially in the case of your death or disability. In many cases, you?ll require additional coverage in addition to the benefits offered by an employer. A Certified Financial Planner practitioner can assess your current coverages and suggest recommendations to protect you and loved ones. Listen, a living thing can die planted in the best of environments. We just need to make certain it doesn?t take everything else with it if it does. *Segment the crops:* By crops I mean account types. The financial services industry favors tax-deferred accounts more than any other. It?s like some sort of magical beanstalk is going emerge from them and send you straight to the golden goose. In process, the strategy lays an egg. Tax diversification will be important during your last step or harvest time where rewards are reaped from the rich soil of your financial well-being and disciplines. I?ll explain further in the next stage. It?s acceptable to contribute to your employer provided retirement account, especially if a match to your payroll contributions is provided. However, it?s not the only game in town. The richness of your bounty prospers from the varied hues of what you seed and grow. If you?re a young person and expect to be a prospering, future earnings machine (thus in a higher marginal tax bracket), contribute to a Roth IRA if you?re within the adjusted gross income limits to do so. At retirement your earnings can be distributed tax free. Consider your company retirement plan up to the match, then open a Roth IRA with a full-service brokerage firm or Vanguard and invest the maximum allowable in a Roth IRA. To learn more investigate www.rothira.com or sit with a qualified, objective financial partner to determine whether a Roth is right for you. An emergency cash reserve that stockpiles three to six months? worth of living expenses is crucial to the integrity of your wellness. Virtual banks like www.allybank.com and www.synchronybank.com are FDIC insured and offer attractive yields when compared to the stodgy, brick and mortar brethren.• A vehicle like this is a perfect avenue for Step Two of this process, too. Never disregard funding an after-tax brokerage account in addition to a tax-deferred option. A wide selection of investments are available, whether exchange-traded funds, individual stocks and bonds and upon selling, holds the possibility of lower tax implications of long-term capital gains compared to ordinary income tax rates for tax-deferred retirement accounts and traditional IRAs. ***Those may not be weeds you?re pullin?:*** A huge misunderstanding exists about how annuities or lifetime income options fit into a philosophy. They fit. As much as you?re made to believe that annuities are like an invasive weed designed to destroy your efforts out in the field, an appropriate lifetime income option can be used to create a pension or income you or you and a spouse cannot outlive. The right choice may serve as a supplement to Social Security and variable rates of income and gains characteristic of risk assets like stocks. Unfortunately, annuities get a bad rap as they?re marketed inappropriately and without financial planning to determine whether an individual?s human longevity risk requires mitigation. Not every investor requires a bolster to lifetime income and the ones who do can do without the variable annuity option which provides hefty commissions to brokers and generally confusing to understand.

Step Four: Don?t fear the harvest:

I feel your pain. We can grow the best, healthiest crops and feel strange about pulling them from the vine. It?s a learned discipline to harvest. I?m not sure why; perhaps it?s rooted deep in human behavior. Maybe it?s because we were in the growth and nurturing stage for so long that it?s tough to switch gears. It can be challenging to separate from the hard work and accomplishments when in fact, harvesting is the greatest compliment of all to a well-played Financial Wellness plan. In other words, you need to learn to let go to fully embrace Financial Wellness. ***Taking profits from a position is healthy:*** We?re beat over the head to hold everything. For example, sell is the most evil four-letter word in the financial industry bible. We train investors to feel bad, (overt or not), when they sell because there?s this false impression they?re going to miss out on something BIG. Or worse - look stupid. Trimming profits from a winning position or limiting losses are successful risk management practices. You?re going to suffer losses and setbacks practicing Financial Wellness. The key is to recognize and limit them and work as diligently as possible to return to stasis or a healthy middle ground. Generating a paycheck in retirement in the most tax-friendly manner requires multiple crops or account types to harvest. The proper blend of pre-tax, after-tax and Roth distributions can effectively smooth out tax implications throughout retirement or possibly minimize the taxation of Social Security benefits. ***Harvesting is the ultimate reward for hard work and sacrifice*:** There will be a time in the future when your Financial Wellness strategy will change in scope. A new breed of visions, needs, wants and wishes will emerge and you?ll look to begin this process over again with fresh definitions, new soil, and crops you couldn?t imagine tackling a decade earlier. Through this round there may be other generations who you?ll look to transfer bounty. Converting illiquid assets into precious water to drink in retirement, reducing the chains of physical possessions, giving to others and to share bumper crops with those less fortunate, are all benefits of the harvest. Money that flows through your personal Financial Wellness continuously evolves. It?s about you and like a ripple, your relationship with money will affect others, perhaps a society. Overall, this flow represents the circle of Finology ? a blend of money and psychology as coined by one of the founding fathers of financial planning, Richard B. Wagner, JD, CFP, who recently passed.

> *?An individual?s relationship with money is a lifelong dance, a dance taking each of us from the most macro of sociopolitical realities to those relationships of exceeding intimacy ? those with our Selves, our spouses and our families.?*

This concept of Financial Wellness I dedicate to a true financial planning visionary ? Richard B. Wagner.