Christopher Weil
Christopher Weil & Co., Inc.
5900 San Fernando Road
Glendale, CA 91202
(818) 500-3800

Personal Financial Planning
From the Consumers Point of View

Many years ago, when I first came into the investment business, I had a sales manager who I still remember with great affection.

Periodically, he would drop favorite words of wisdom on us--his apprentices. He used to say, for example, that there are only two kinds of people in the world: those who have all the money they want, and those who don't. He would add that we could forget the first kind because we weren't going to find any of them.

He would also tell us that there are only three ways for people who want more money to get more money: they can inherit it, steal it, or accumulate it.

In effect, he would say, this makes our business very simple. All we have to do is go out and find people to talk to who want more money (which turns out to be everyone we meet) and say to them that we would like to help them in the only feasible way open for them to get more money: accumulate it.

A good many years have gone by since 1963, but I continue to believe that at the core of the financial planning process is this issue of asset accumulation.

Maybe it's because I'm older and move in fancier circles than I did in 1963 but I would add one additional core activity to the financial planning process and that would be the question of what you do with the money after you accumulate it. That is, financial planning is also involved with the utilization of accumulated assets--which generally means the management of assets for maximum income, consistent with safety, diversification, liquidity, tax considerations and so on.

So that's it: fundamentally, financial planning means asset accumulation and utilization.

Another way of saying this is to say that if you actually get to the point where you have accumulated substantial assets that you now have available for utilization (that is, for income production) you have probably achieved a substantial degree of economic independence, which is really what it's all about.

The activities and techniques that are included in the various definitions of financial planning are all, as far as I can tell, devices for securing these core activities.

So, for example, if part of your financial plan involves maintenance of an adequate cash reserve, it's because you don't want sudden cash needs to erode your asset base. And if part of your financial plan involves owning substantial amounts of health insurance, it's because you don't want doctor and hospital costs to erode your asset base. And if part of your financial plan involves investing in real estate partnerships, it's because you hope to increase the productivity of your asset base. And if part of your financial plan involves establishing a living trust, it's probably because you seek to prevent the erosion of your asset base from probate costs and estate taxes. And so on... the examples could be multiplied but you see what I'm getting at.

Now, for those of you who have never subjected yourself to the financial planning process, let me tell you how it works. By the way, financial planning is very much a business and a profession in evolution--which means that others might differ about what constitutes the elements of the process, but I think must practitioners would agree in general with my description.

The financial planning process has six phases:

(1) find a planner

(2) familiarization

(3) digestion

(4) comments, suggestions and recommendations (the plan document)

(5) installation/implementation

(6) ongoing review, monitoring, modification

Let me me take each phase and discuss it in a little more detail.

"Find a planner" means just that. Find someone to assist you in the planning process; someone who is competent to enter into a long term advisory relationship with you. I will come back to the question of how to select such a planner in a few minutes.

"Familiarization" is the process by which you become familiar with the planner you have selected and he or she becomes familiar with you. The most important part of the familiarization process involves your planner in asking, and you in answering, three questions which must be answered comprehensively if the process is to continue. Those three questions are: "who are you?", "what do you have?" and "what do you want?". "Who are you?" gives you the opportunity to provide your planner with a comprehensive understanding of your business and personal circumstances. "What do you have?" gives your planner a complete list of your assets, your liabilities, and your sources and amounts of income. "What do you want?" gives your planner a detailed description of your short-term and long-term financial objectives.

"Digestion" means just that. There will be a period following the familiarization phase when your planner "digests" all you have told him and integrates it with what he knows about the world of finance, taxation, investment, risk management, and so on.

After a few days, or a few weeks, or even a month or two the planner will meet again with you and present the comments, suggestions and recommendations which are the fruits of the familiarization and digestion phases. This presentation could be in the form of a 50 page, densely packed report or it could be some hand written notes on a legal pad--or something in between. But in any event, it will represent the "plan document", the financial plan itself.

Assuming that you like what you hear and approve of the comments, suggestions and recommendations, the next phase involves "installing" or "implementing" them. This could involve you in a whole series of transactions, depending upon the character of the recommendations you have received.

An then finally there is the culminating phase of the financial planning process (which really isn't a culmination but could in fact be an extension of the process into perpetuity) where you and your planner meet periodically to do ongoing review, monitoring and modification of your plan as appropriate.

Taken all together, that's the way the process works.

You will note that in starting the process with "get a planner" I have begged the question as to whether you <u>need</u> one or not, or need to involve yourself in personal financial planning at all. <u>Should</u> you undertake all this? How necessary is it, really?

In order to answer these questions, step back with me for a moment and look at this issue in a larger perspective.

Personal economic life involves a kind of development process. Ideally, the process can be described as one which moves you from a condition of economic dependence (that is, dependence on your family, your job, or the government) to a condition of economic independence (which means a condition where you are able to realize a return from your own resources sufficient to satisfy your personal economic needs and wants). In other words, economic independence means that you have succeeded in the asset accumulation process.

It turns out, as you know, that in most lives this process is thwarted. That is, most people never reach any degree of economic independence.

There are a number of reasons for this. Depending upon the particular life, there could be limited earning power, poor health, bad luck or consistently poor judgment.

But these are not the usual reasons--at least they are not in the lives of normally educated and normally productive people.

In my experience, there is one big reason why most people fail to achieve economic independence. And it has to do with the fact that they do not ground themselves in economic reality. They suffer from a kind of failure of perception or a failure of understanding.

"So what's to understand?", you ask.

"What's to understand" as a precondition to economic independence are some economic realities which most people find uncongenial.

Reality #1. Nothing worthwhile is achieved over the short term. All true achievement (including economic achievement) is the result of a long term incremental development process.

Reality #2. Economic independence is rarely achieved without periodic mistakes and losses. Anyone who seeks diligently to make no mistakes or take no risks of loss will experience atrophy, not growth. Mistakes and losses are the teaching mechanisms by which we self-correct and refine our understanding of the economic world, and so enhance our ability to grow economically.

Reality #3. Economic independence is rarely achieved without a plan. This does not mean a plan fixed in concrete or a plan that is overly specific in detail. It does mean a plan that has as its goal your economic independence, a goal probably spelled out in terms of some amount of net worth you need to own, achieved by a certain future date. Part of the plan would no doubt be some kind of investment track or time table stretching from now until then. What the plan does is set a kind of standard against which you can measure your actual progress. Without that standard, you don't have a device for determining how well or badly you are doing, or indeed whether you are making any realistic financial progress.

So, do you need it? Of course, if your goal is in fact economic independence--and you want a high probability shot at it. Acknowledge that achievement is a long term proposition; that mistakes and losses are a necessary byproduct of economic success; and that you need a plan.

Now, you can do it yourself. Set your goal and get going! Subscribe to an investment advisory service and buy and sell your securities through a discount broker; draft your own will and trust from a "fill in the blanks" book of legal forms; load up on group insurance; buy an occasional municipal bond in the belief that you are experiencing tax shelter. But if you do embark on a do-it-yourself kind of approach to financial planning, while I do not say that you are doomed to failure, I do say that you will not do as well as you could or should do--and you won't because you have violated a fourth economic reality which I now add to the other three.

Reality #4. Economic independence is rarely achieved without the help, the advice, the ideas and the recommendations of competent financial advisors who are more or less intimately involved with you in the development of your economic life.

And where do you find such jewels? Let me suggest some criteria for selecting one for, as you know, there are a lot of people around holding themselves out as financial planners. The problem isn't so much finding one as it is selecting one from the available supply.

1. If a planner has been referred to you, does he or she come well recommended? That is, do you respect the person giving the referral? If he comes to you from another source, can he supply you with references to clients, lawyers and accountants with whom he has worked?

2. Do you like him or her? It makes no sense to enter into a long term professional relationship with a person, however competent, with whom you aren't comfortable personally.

3. Do you understand him or her? Financial planning and related disciplines abound in technical jargon. There is probably something deficient in a planner's grasp of the depths of this business if he cannot translate jargon into non-technical language.

4. Is he willing to commit an hour or so for a preliminary, no-cost, no obligation discussion to discuss your personal circumstances and discover if there is some basis for a long term advisory relationship? If you detect impatience or disinterest you may be talking to someone more interested in the sale than the relationship. This is not necessarily a bad thing--if you are looking for a broker rather than a financial planner.

5. When you ask for some preliminary thoughts and recommendations do they seem to be consistent with your own sense of what is reasonable? Are they "mainstream" or "eccentric"? Are you comfortable with them?

Assuming you don't already have a particular planner in mind, one effective way to begin seeking a financial planning relationship with a competent advisor is to ask someone you know - perhaps someone older and richer--who he or she might recommend.

But in any event you should understand that the development of a long term financial advisory relationship with the right financial planner is often the result of a trial and error process, a process that could take a week or a month or a year. You may talk to just one person and everything jells--or you may have a series of encounters with prospective advisors no one of which is satisfactory. For it is certainly true that sometimes you will find planners who are shallow, or biased beyond correction, or ill-informed. This cannot be helped, and you will have to rely on your own hardwon experience and common sense to separate the sound and the credible from the rest.

But I can assure you of this. Out there somewhere, waiting to make a connection with you, is a financial planner who is <u>the one</u>. That is, someone with whom you can click, someone who <u>wants</u> to enter into a long term financial advisory relationship with you, someone with the skills necessary to point you in the right direction, someone with the discrimination and horse sense to aid you in implementing your financial plan with good ideas _and_ good investments that will build an asset base of magnitude--an asset base that will one day provide the kind of economic independence you want. He (or she) might even be present in this room.

Thank you.