

**AS SEEN ON TV!**

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I was watching TV the other day. There were the usual ads from the banks and brokerage houses touting their products. You have seen them. Many times. The ads are the perfect blend of Madison Avenue and Wall Street. Wall Street has something to sell; Madison Avenue has a way to get people to buy it.

The ads all had one thing in common: they tell you that the most important element in the successful pursuit of long term financial security is choosing the right investment firm to manage your money.

What a simple idea! I save a little money now and then. I give it to my advisor. My advisor chooses the most suitable products his company has to offer and buys them with my money, keeping a bit for himself, of course.

A few decades later, when I am ready to retire, I tap into what has certainly become a big nest egg. And I didn't have to even do anything other than give my financial advisor my meager savings.

The problem with this belief is that, in my 30 years of experience, I have found that it simply isn't true. So what is the key to financial success if it isn't returns on investment?

A person's behavior.

Achieving financial security is a long and tough process requiring several decades of hard work. Most of all, it requires good decision making. It requires that you have a marketable skill, that you spend less than you earn, that you manage your debt, that you practice risk management, that you save, that you start early, and that you never forget your obligation to your future but currently powerless self.

These are all behaviors. And all are more important than investment returns in achieving financial security and happiness.

But, Jim. Are you saying that returns on investments don't matter?

No, of course not. Returns do matter. But a well diversified portfolio that is funded regularly and that balances risk and reward is likely, over the long term, to produce returns that will, when combined with all the other aspects of financial planning, contribute to your long term financial success.

The important thing is to not fall prey to salespeople in the big banks and brokerage firms who tell you that buying their products is the key to success. They don't work for you; they work for the shareholders of their companies. And they are not trained – nor paid – to help you with all the other aspects of financial planning.

Also, don't assume that buying stock in the next Apple will make up for doing nothing else. Investing and gambling are not the same thing.

One day you will finally meet your future self, the person who relied on you for decades to take care of him or her. How will that meeting go?

# QUANTIFYING THE VALUE OF FINANCIAL PLANNING ADVICE

FINANCIAL PLANNING STRATEGY	POTENTIAL ECONOMIC IMPACT
<b>INCOME TAX BENEFITS</b>	
- Claiming tax deductions, credits, & tax-free investing opportunities. Deductions, credits, ROTH IRAs and 529 plans, etc.	\$1,000s or \$10,000s
- Tax deferral - Retirement contributions, TLH.	\$10,000s or \$100,000s
- Tax bracket arbitrage - Roth conversions, tax sensitive liquidations.	0%-30% of total wealth
<b>INVESTMENT PLANNING BENEFITS</b>	
- Picking Lower-Cost Investments	0.45%-0.82%
- Tax Loss Harvesting	0.20%-0.60%
- Asset Location	Up to 0.75%
- Investment Selection for Alpha?	>0%
- Rebalancing	0.35%-0.44%
- Diversification	Risk reduction
- Behavior Gap	Up to 1.50%?
<b>ESTATE TAX BENEFITS</b>	
- Federal estate tax savings (for those >\$5M?)	Millions
- State estate tax savings	\$100,000s or Millions
- Probate and settlement cost savings	\$1,000s or \$10,000s
- Ensuring assets go where they should and when	Priceless!
<b>RETIREMENT PLANNING BENEFITS</b>	
- Retirement portfolio tax strategies and withdrawal sourcing	0.50%-0.70%
- Maximizing Social Security benefits	\$10,000
- Retirement-sensitive tax planning strategies (e.g., Medicare Part B and Part D premium surcharges)	\$1,000s to \$100,000s
- Setting spending policies and budgeting	Making retirement work!
- Determining when you can stop working!	Priceless!
<b>INSURANCE PLANNING BENEFITS</b>	
- Optimizing Insurance Coverage	\$100s or \$1,000s
- Eliminate Financial Catastrophes	Priceless!
<b>DELEGATION BENEFITS</b>	
- Enhance Value of Your Time	\$1,000s or \$10,000s
- Spend Money to Free Up Time	Emotional Well-Being!
- Ensure Things Actually Get Done!	Priceless!
<b>BEHAVIORAL BENEFITS</b>	
- Debiasing	Unquantifiable?
- Financial coach for implementation	Priceless!

## TYPES OF IMPACT

Financial Gain
  Risk Reduction
  Well-Being Enhancement
  Behavioral Change



"The Kitces Report" by Kitces, Volume 3, 2015  
 "Alpha, Beta, and Now... Gamma" by Blanchett & Kaplan, 2013  
 "Quantifying Vanguard Advisor's Alpha" by Kinniry, Jaconetti, DiJoseph, & Zilbering, 2014  
 "Capital Sigma: The Advisor Advantage" by Ernestnet Quantitative Research Group, 2015

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