The Formula for Successful Wealth

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Wealth Management (WM) = Investment Strategy (IS) + Advanced Planning (AP) + Relationship Management (RM)

This wealth management formula serves as a strong foundation in making good decisions with your money. The problem is that only 6.6% of financial advisors are actually wealth managers using an approach similar to this one (CEG Worldwide, 2007).

I believe this puts many people at risk to not fully succeed with their wealth because they are not looking at the complete picture.

A key to success then is looking at all three factors in your planning process. They are as follows:

1. Investment Strategy
2. Advanced Planning
3. Relationship Management.

The first of these factors involves your Investment Strategy. This factor looks at the elements you need to address in order to give yourself the best chance to achieve what is most important to you with your money.

The elements that need to be addressed for your investment strategy are:

1. Asset Allocation

   This involves making sure your mix of asset classes (stocks, bonds, cash, alternative investments, real assets, etc…) fit your risk tolerance and liquidity needs. It is also the most important factor in determining your investment returns and thus should be reviewed and updated as determined by your plan.

2. Portfolio Performance Review

   This allows you to see whether or not your portfolio is keeping pace with the rate required for your plan to succeed. Also, you can see how your investment returns measure up to the appropriate benchmarks and whether or not any changes need to be made within your portfolio or to any of your managers.

3. Risk Evaluation

   This evaluation allows you to check to see if you are taking the appropriate level of risk for your plan and whether or not you are getting a good return based on the risk you are taking within your portfolio.
4. Review of impact of costs

This review lets you evaluate the total cost to manage your portfolio. It also allows you to determine whether or not you are getting enough value for the fees you are paying. This is an important distinction because lower cost does not always equal the best value and vice versa.

5. Review of impact of taxes

It is not how much you make but how much you keep that is important. A review of the tax efficiency of your portfolio allows you to evaluate if any changes need to be made to your portfolio in order to reduce the tax drag on your returns.

6. Investment Policy Statement (IPS)

This statement provides the general rules for how your portfolio will be managed on an ongoing basis based on the dictates of your plan. Specific information on matters such as asset allocation, risk tolerance and liquidity requirements are included in this statement.

7. Withdrawal Policy Statement (WPS)

This statement is important for retirees because it provides general rules for how portfolio withdrawals will be managed over time to help ensure needed cash flow throughout retirement.

These investment elements are important and should be reviewed on a regular basis to keep them current with what you want your money to do for you. The bottom line is that your investment strategy is critical to your success but is only one part of the overall process needed to win at wealth.

This is where the second component, Advanced Planning, comes into play. It is comprised of the following four parts:

1. Wealth Enhancement (WE)

This area focuses on reducing the tax impact on your investment returns while ensuring adequate cash flow that is required.

2. Wealth Transfer (WT)

This area focuses on getting the wealth you have accumulated to the people and places that are important to you in the most efficient way possible.

3. Wealth Protection (WP)

This area focuses on making certain your assets are not unjustly taken or lost by catastrophic losses, potential creditors, litigants, and identity thieves.
4. Charitable Giving (CG)

This last advanced planning area focuses on maximizing the impact of your charitable gifts on the organizations that are most important to you.

These advanced planning elements work together to have the wealth that you have generated through prudent investment decisions do what you want it to do for you. They also incorporate a wide spectrum of expertise which requires a team approach.

This leads us to the last component of the wealth management formula which is Relationship Management. It includes the relationship between advisor and client. But it also extends to the relationships with other members of your financial team that are needed to make your plan successful.

Let’s look at the two parts of Relationship Management.

1. Relationship with your advisor

This involves both the frequency and quality of contact with your advisor. These should be set at a pace that is comfortable to you and that fits your situation. This should be discussed at the outset so that both parties are on the same page. These contacts are critical to the review and the progress of your plan.

2. Relationships with your professional network team

Your financial advisor should act as the general manager of your financial team, which is oftentimes comprised of your attorney, your tax advisor, and your insurance specialist. This teamwork process will help ensure that all the critical areas of your plan are being addressed by the proper specialists and that all members of the team are working together toward the achievement of your plan.

This formula will help you win at wealth because it allows you to address all aspects critical to your wealth management plan. Then and only then will you be positioned for your wealth to achieve all you want and need it to achieve for you and your family.

A question for you to consider -

How confident are you in your wealth management process?

Please contact me with any questions or comments here.

Please contact me here to set up a wealth management review.

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