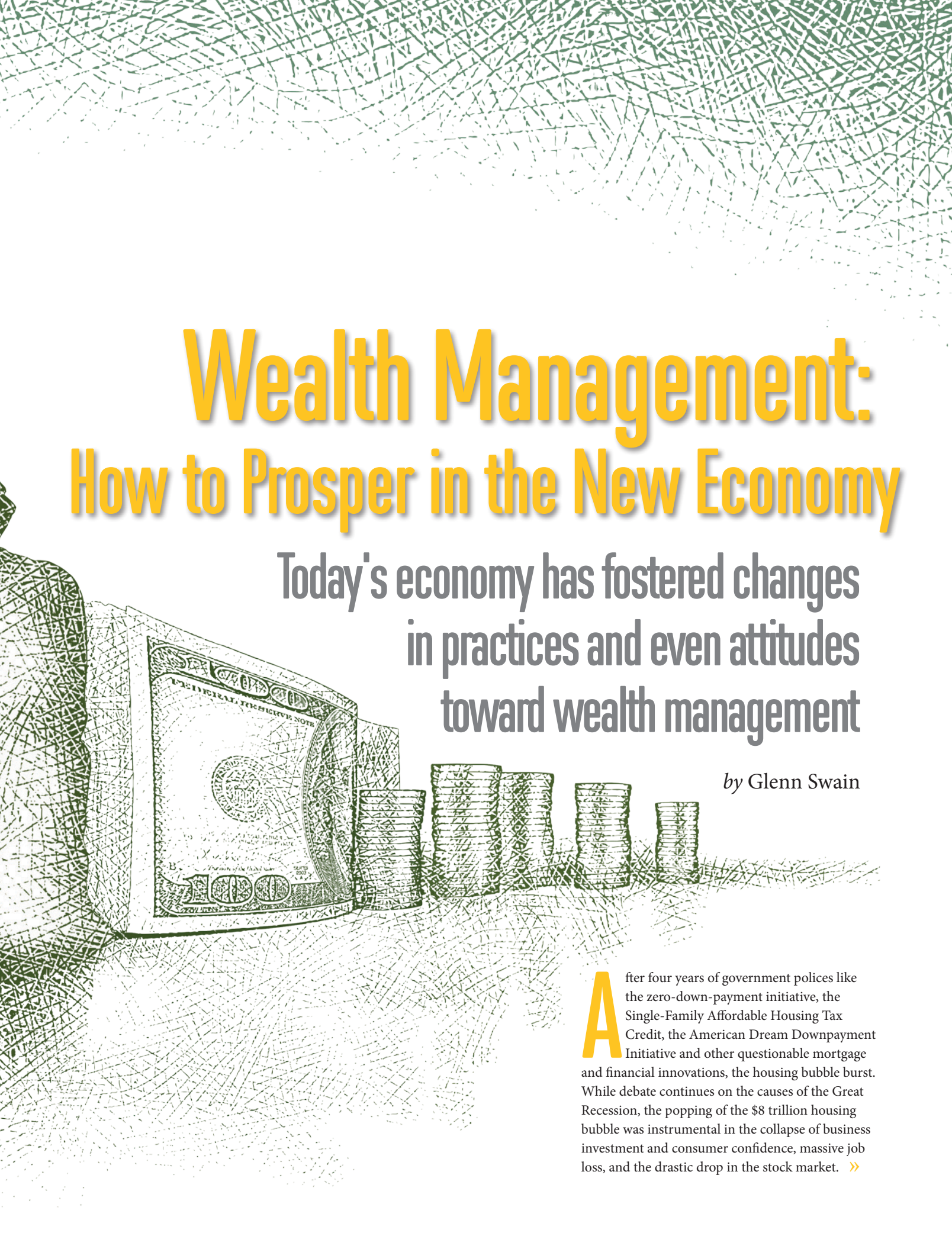




# Wealth Management: How to Prosper in the New Economy

Today's economy has fostered changes  
in practices and even attitudes  
toward wealth management

by Glenn Swain



**A**fter four years of government policies like the zero-down-payment initiative, the Single-Family Affordable Housing Tax Credit, the American Dream Downpayment Initiative and other questionable mortgage and financial innovations, the housing bubble burst. While debate continues on the causes of the Great Recession, the popping of the \$8 trillion housing bubble was instrumental in the collapse of business investment and consumer confidence, massive job loss, and the drastic drop in the stock market. >>

In September 2008, \$1.2 trillion in market value was gone when the House rejected the \$700-billion bank bailout plan. Among the victims were some of the largest global financial firms, including Lehman Brothers, which, before declaring bankruptcy in 2008, was the fourth-largest investment bank in the U.S.

Left in the aftermath was a completely changed investment business where money managers are thinking outside the traditional model of how they managed portfolios in the past. It is an industry that is tiptoeing its way into a new year of uncertainties, a volatile stock market and continuing global economic problems.

## From Fear to Faith

Wealth managers provide a service of portfolio management and strategic financial planning for individuals. Since the Great Recession, financial planners have had to become pseudo-psychologists with clients who are in fear of how to proceed and whose risk tolerances are being tested. But with the help of trusted money managers, more and more investors are experiencing a renewed faith in future investing.



Rich Goldman, CEO of Rich Goldman Asset Management in Scottsdale, says many of his clients are concerned now about what kinds of returns their money provides to allow them to live a certain lifestyle. “People are very scared,” he says. “What used to be considered safe was putting money into bank accounts and interest-bearing investments like bonds. Now that interest rates are so low, they don’t have that choice. If money is invested at such low rates, it loses value much faster in terms of its purchasing power. The definition of risk has really changed from the potential of losing money to not earning enough on it to be able to live.”

“Many are fearful and don’t know what to do,” says Bob Nichols, who has been a Desert Schools Federal Credit Union financial advisor for 11 years. “We’re trying to guide them.”

In the past, people were taught to invest in mutual funds, which were traditionally a safe place to store money and receive a return. Not any more. Money managers and brokers have had to develop a new way of doing business.

Sensing a downward trend was occurring in 2007, Cynthia Fick, owner of Phoenix-based Financial Life Planners, LLC, began selling on her client’s portfolios for cash. “It was like seeing a haboob coming, you prepare and batten down the hatches,” Fick says. “But I never thought the stock market would go off the cliff. By the time it did, I had my clients in half cash.”

“It’s a very challenging time for the income-oriented investor,” says Mike Sullivan, a CFA and regional director of investments for the Western United States at BMO Harris Private Banking. “Those living on investments have two fears: market volatility and the ability to produce an income stream off their portfolio.”

But with uncertain times comes creative solutions. More money managers are seeing clients ask for great diversification. Where, in the past, allocation models often included investments spread across bonds, stocks and cash, money managers are thinking outside this traditional model and exploring diversification with different risk models.

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“More money managers are offering styles that change with the underlying current events so that clients feel that their values are not fluctuating as much,” says Daniel Laraway, a certified wealth strategist at Scottsdale-based Laraway Financial Group. “It is the volatility that makes people uncomfortable and make moves based on emotions, not on facts.”

“We’re seeing a trend toward spreading risk and volatility across more asset classes,” says Paul Rutkowski, managing partner at Scottsdale-based Nelson Financial Services. “People now realize that it is not wise to put one’s retirement plan on autopilot. I believe clients today need a professional more than ever to determine how they will be able to retire on an income stream that can be sufficient for them.”

Money managers are getting creative in order to diversify a client’s portfolios. “We also have been diversifying assets in products, such as annuities, which can offer a guaranteed income stream for life,” Rutkowski says. “Of course, these guarantees are based upon the claims-paying ability of the issuing company. Depending on the client, we may explore products that can offer an ability to secure an income stream despite downward moves in the market. More than ever, clients are seeking strategies to help them ensure a comfortable retirement.”

## Relation to Inflation

A hidden villain for investors is the inflation rate. Released by the government as the Consumer Price Index, the inflation rate is basically a basket of goods and services that does not include unpredictable items like food and energy. The government deems food and energy to be too volatile; changes in food and energy prices distort changes in the overall inflation rate.

“It is very important to have a diversified investment portfolio designed to have the ability to keep up with or outpace the rate of inflation,” says Rutkowski.

“What people are most concerned about, whether they are conscious of it or not, is the way in which inflation affects them,” Goldman says. “My definition is not the government’s definition. It’s ‘How much spendable income do you have?’ and ‘Does it buy you everything >>

# Top 10 Wealth Planning Mistakes to Avoid

TRISH STARK, SENIOR vice president and director of client relations at First Western Trust in Scottsdale, notes that with the complicated nature of wealth planning, certain factors often get overlooked. She shares ten tips to help individuals avoid making common mistakes.

## 1. Not understanding the rules

To avoid accidentally adding the wrong assets to a trust and inadvertently undermining one’s wealth plan, one should engage an advisor who knows the ins and outs of estate and wealth planning.

## 2. Paying unnecessary taxes

Making a significant charitable contribution in the form of cash is an inefficient distribution method. Instead, one should choose a highly appreciated asset.

## 3. Overlooking the details

One may have hired and paid an estate planning attorney to create an estate plan, but the best-laid plans can unravel by not titling one’s assets consistently with one’s estate plan.

## 4. Assuming one’s loved ones know what one wants

One should make sure to have a living will and power of attorney documents in place against the possibility that one becomes incapacitated or passes away unexpectedly.

## 5. Thinking one will die early

It’s a mistake to wait until one is in one’s 90s to recognize the full impact a long life has on one’s financial resources.

## 6. Thinking one will live forever

Not creating and implementing a financial plan due to thinking one has more time may create financial challenges for loved ones.

## 7. Letting one’s lifestyle dictate one’s portfolio structure

One should determine one’s risk tolerance (the amount of market volatility that’s acceptable) and let that guide one’s investment and spending plan.

## 8. Being narrow-minded


Understand that security pertains to more than just financial capital. Life-changing events — including family issues, loss of job, health care, death and disability — may impact one’s overall wealth plan.

## 9. Assuming one doesn’t need a trust

A trust can protect oneself and loved ones from creditors and predators.

## 10. Assuming identity theft happens to someone else

One should take care when providing personal details and check one’s accounts often to ensure that no suspicious activity has occurred.



**"My definition is not the government's definition. It's 'How much spendable income do you have?' and 'Does it buy you everything that you need?' The dilution in the value and purchasing power of each individual unit of money they have — that's what inflation does."**

that you need? The dilution in the value and purchasing power of each individual unit of money they have — that's what inflation does. It's a total deception and people have no idea. The government has an enormous incentive to understate inflation. Inflation rate could be off 10 to 15 percent."

"Inflation is a challenge for all investors because it creates a hurdle rate that must be covered before you can begin to earn real returns," Sullivan says. "Inflation today, although very low by most measures, is a problem because interest rates are being driven to extremely low levels by Federal Reserve policy and general investment fear. As a result, savers are not able to earn a real return from what are generally considered conservative, income-oriented investments. Things like CDs, Treasury notes and high-quality corporate bonds are not likely to earn the inflation rate over time.

"Investors are being forced to take on more risk in order to earn real returns, so they are moving into lower-credit-quality, fixed-income assets and stocks," Sullivan adds. "Because yields on high-quality, fixed-income assets like treasury notes and bonds, and CDs, are extremely low, investors need to assume some added credit risk in order to earn a real return above inflation. By 'lower-credit-quality,' I mean investment-grade corporate bonds and, in many cases, non-investment grade or junk bonds. The other alternative is for them to buy dividend-paying stocks, which, in many cases, are providing current yields at or above the 10-year treasury yield and have the opportunity for appreciation and increased dividend payouts over time."

"Inflation can have a huge impact on your portfolio," Fick notes. "For instance, inflation leads to higher interest rates and this could have a negative impact on most bonds. Few people seem prepared for a big drop in their bond holdings and bond mutual funds. Given that the Fed is pumping dollars into the money supply through Quantitative Easing and that government debt is rapidly increasing, I would suspect that inflation could rear its head."

"We have been blessed with a low inflation rate, but there is no guarantee that we will have that going forward," says Laraway. "We may even have deflation, so it is valuable to have that conversation with your investment advisor so that you know what to look for and how to protect your investments in various financial scenarios."

## Overseas

Investors have started looking at overseas investments to improve portfolios. While the returns can be lucrative, there comes with it additional risk involving tricky exchange rates and tax regulations. Detailed research by a professional and patience are required when considering investing in foreign countries.

"People are starting to understand that it's a bigger world out there and not only are there many attractive investments overseas, it is important to know the role of the United States in the big picture," says Goldman, who admits he's influenced by studying history. "There is no precedent in history for borrowing more money to stimulate an economy that's too much in debt. An analogy is treating a hangover with more drink; it's not going to work."

"International investments used to be a non-correlated asset to U.S.

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stock markets, meaning that they did not trade in sync with U.S. stocks,” Fick says. “Since we have become a more global economy, I think overseas companies will trade more like the U.S. in the coming years.”

Sullivan also sees positives in overseas investments, especially multinational U.S. companies, which are trading well and yielding dividends. “Emerging international market equities are attractively valued and should have an overweight position in most portfolios,” he says. “In contrast, we think that large, company-developed international market equities, which are primarily European or Japanese, should be avoided at this time. Valuation in the developed markets is quite compelling, but the future of the European Union and the Euro is quite uncertain. We favor emerging markets where we have much higher growth rates and much more attractive fiscal outlooks. I like the emerging international markets like Brazil, Russia, India, Korea, Asia and Latin America, while avoiding European exposure.”

“Depending on a client’s goals, objectives and risk tolerance, using investments available in other countries to expand a portfolio can make sense as a diversification strategy,” Rutkowski says. “In any market or country, there are opportunities and risks associated with investing.”

## Crystal Ball

In the days and weeks after the re-election of President Barack Obama in November, investors’ fears of continued government spending and higher taxes on capital gains and the rich caused the stock market to dip, causing some market analysts to forecast another recession is on the way. Others claim stocks are getting stronger and now is a good time to invest.

“I do not have a crystal ball to view the future but I do recommend that investors have a plan in place that offers high-quality investments as well as strategies that are designed to offer some protection when markets correct,” Rutkowski says. “Economic uncertainty can make markets volatile. It is important to prepare for uncertainty and volatility. I believe investors benefit from professional guidance, to help them put a plan in place to reach their goals and objectives.”

“I’m ready to get defensive and raise cash if the market starts to signal that it can’t break out to the upside in 2013,” Fick says. “If the market breaks out and moves significantly past these old highs, look out. We will be making money in stocks hand-over-fist. I will let the market show us what it wants to do.”

“The developed economies will continue to generate well below average growth as consumers and governments continue to deleverage,” Sullivan says. “The enormous debt bubble built up over the last decade will take many years to work off, and we should expect investment returns to be below historical averages. Investment success will require broad diversification, a willingness to use non-traditional asset classes and nimble responses to changing asset valuations and market opportunities.” In an interview held prior to the election, Sullivan observes, “While the markets could be expected to show some heightened volatility around new fiscal policies, regardless of who is elected, investors should try to look through the noise and focus on the longer-term issues that will affect portfolio returns.”

“We are quickly approaching the old highs we reached in the stock markets in 2000 and 2007,” Fick observes. “Both times in the past, the market has had a major downturn. So I will be cautious as we get closer to our old highs.” ■

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