CWM® Program
Wealth Planning Review -

AAFM ®

ADVANCED WEALTH PLANNING & PRODUCTS

What types of Assets Do Rich People Have

Mistakes that Rich People Make

What is **Wealth Management?**

- **Comprehensive** wealth planning uses an integrated approach to monitor all aspects of someone's financial situation:
  - -Insurance & Risk Management
  - -Investment Planning
  - -Tax Planning
  - -Retirement Planning & Employee Benefits
  - -Estate Planning

Source: MFP Institute

Reasons for Wealth Management

- Comprehend the totality of the situation
- Beat Inflation
- Minimize Taxes
- Understand the laws that affect you and family
- Manage the “Unexpected”
- Meet the Client’s Financial Goals
- Meet the Client’s Retirement Expenses
- Retirement
- Estates
- Taxes

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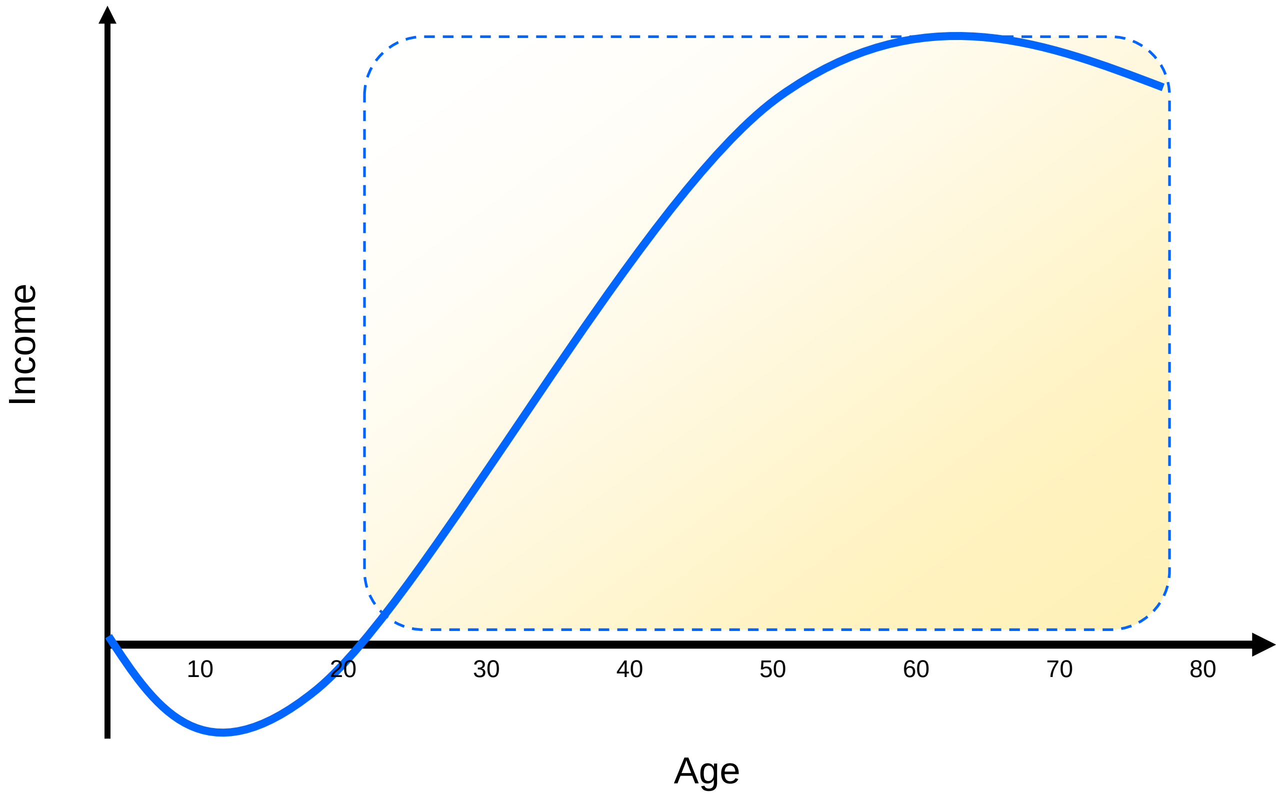
Wealth Management - Why It's Important

- Increased Emphasis on Self Reliance
  - Less From Government; e.g. Social Security
  - Less From Employer; e.g. Reduced Role of Traditional Retirement Plans
- Achieving Financial Independence
- Coping with Economic Uncertainties and Shocks

Financial Success and Financial Independence

- Financial Success: Obtaining Maximum Benefits from Limited Financial Resources
- Financial Independence: Having Sufficient Income or Financial Resources To Be Self Reliant

Personal Income PEAKs – When?



Source: Personal Financial Planning, AFPJ

What Are Your Goals in Life?

- Family
- Business
- Retirement
- Home
- Where to Live
- What to do
- Economic Freedom

Important Economic Trends

- Inflation
- Job Security
- Cash
- Growth of Investments?
- Rate of Return
- other

Setting Client Expectations

- Set measurable goals.
- Re-evaluate the financial plan periodically.
- Start now - don't assume planning is for people that are older.
- Start with the basics - don't assume planning is only for the wealthy.
- Wealth planning is about "taking charge" – the client is in control of the financial planning engagement.
- Look at the big picture - financial planning is more than just retirement planning or tax planning.
- Don't confuse planning with investing.
- Don't expect unrealistic returns on investments.
- Don't wait until a money crisis to begin planning.

Planning Models

- There are several hundred different financial planning models
- Which is the best one?
- It depends on 4 parameters:
  - The client's needs
  - The available products
  - Your expertise
  - The financial/legal/tax environment

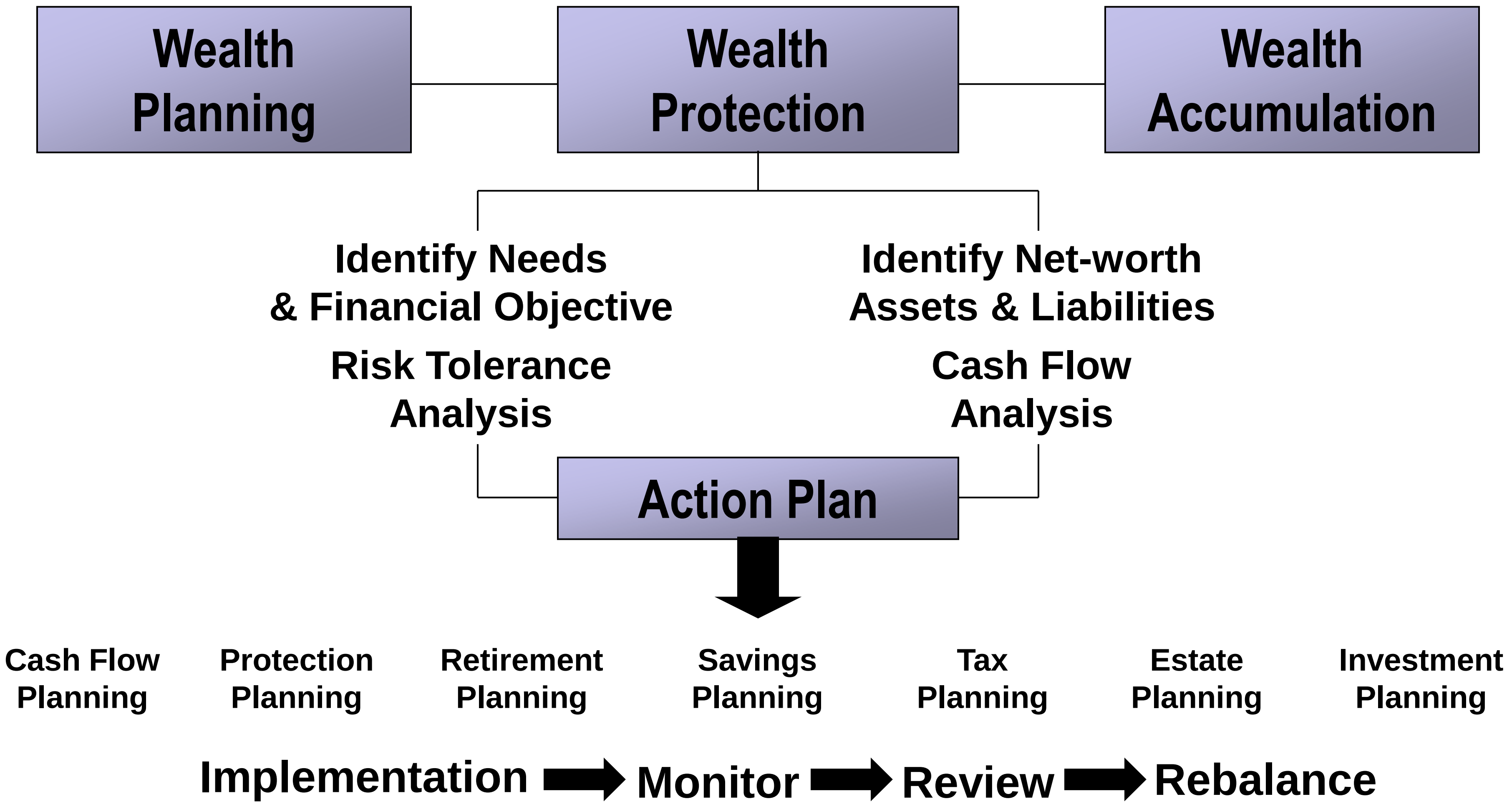
Key Planning Areas

- Consumption and savings planning
- Debt Planning
- Insurance Planning
- Investment Planning
- Retirement Planning
- Estate Planning
- Income Tax Planning
- Education
- Health and Disability

Plan Suggestions

- Shows all assets
- Shows Appreciation
- Shows Expenses Needed
- Shows options for products and services
- Takes in account children and parents
- Big Picture

Wealth Management Process



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You can't plan for everything…

- Premature Death
- Divorce
- Health Problems
- Unemployment
- Casualty and Theft Losses
- Being Sued
- Significant Investment Losses

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Live Events & Goals

- Understanding Life Events is KEY to Financial Planning

Education Planning

Retirement

Family Matters

Wealth and Inheritance

Career Moves

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Family Matters

- Getting Married
- Starting a Family
- Buying Your First Home
- Facing a Disability in the Family
- Caregiving and Long-Term Care
- Coping with the Death of a Loved One

What are the WANTS?
What are the NEEDS?
What are the products?

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Education Planning

- What If I Started Too Late?
- Teaching Your Kids Financial Responsibility
- Staying On Track With Your Own Financial Goals

What are the WANTS?
What are the NEEDS?
What are the products?

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Retirement Planning

- Surviving vs. Prospering in Retirement
- Thinking About Your Future Needs
- Company Plans
- Insurance Plans Annuities
- Options
- Tax Plans like 401Ks
- IRAs

What are the WANTS?
What are the NEEDS?
What are the products?

Wealth & Inheritance

- Investment Strategies
- Wills
- Trusts
- Estate Planning

What are the WANTS?
What are the NEEDS?
What are the products?

Career moves

- Losing a Job
- Getting Ahead
- Going Back to School

What are the WANTS?
What are the NEEDS?
What are the products?

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Protection Needs

Medical Protection | **Life Protection** | **Disability Protection** | **General (non-life)**

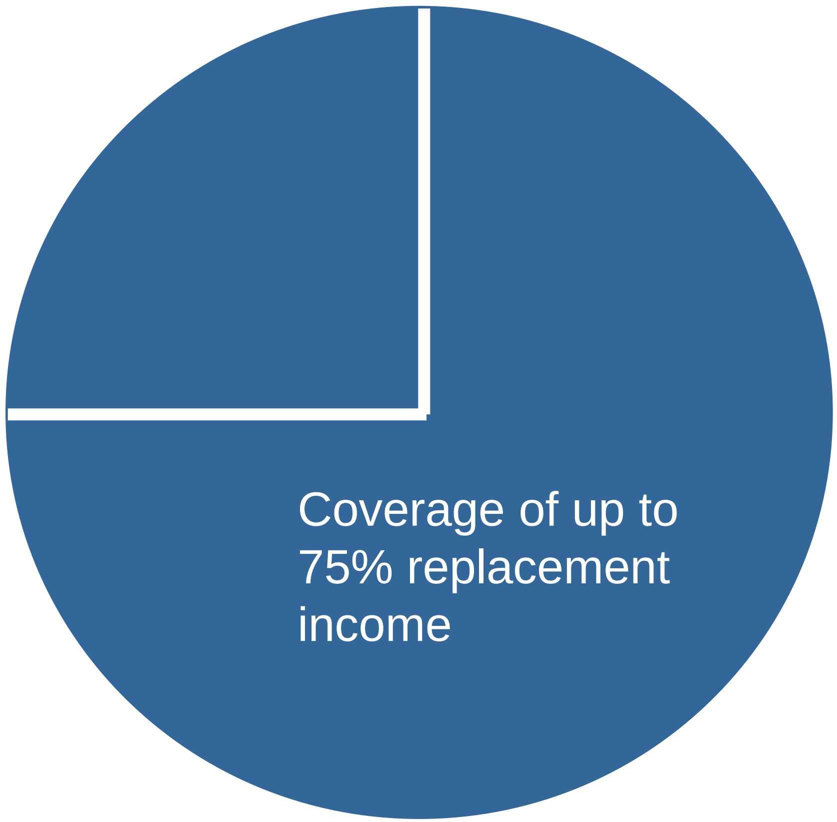
Medical Protection

1. Major Medical (Hospital & Surgical)
2. Hospital Cash
3. Critical Illness
4. Personal Accident
5. Long-term Care

General (non-life)

1. Homeowner & Rental
2. Earthquake & Flood
3. Car
4. Credit
5. Personal Accident
6. Long-term Care
7. Investment Insurance (i.e. Jewelry, Artwork, etc.)

Protection Needs: Disability Protection



How much Life Insurance is enough?

- This is a “subjective” matter

- Depends on a lot of things:
  - How much you can afford.
  - Years of income to replace
  - Risk tolerance
  - How much you have in savings
  - How much debt, expenditures, etc. to pay off/pay for
  - The degree of risk you want to transfer and can do so
  - The cost of transferring this risk

- Amount to be determined can be derived from:
  - Amount need to be paid/covered
  - Standard formula
  - Etc.
  - There is no right answer…

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Rough Estimation Technique

To estimate the amount of coverage you need to replace 75% of your take-home pay for the years you would have been working, multiply your salary by the factor at the intersection of your salary and your current age. In this example, it's $720,000.* i.e 80K times the factor of 9 equals 720,000

Annual Pay (before taxes)	Current age of person insured						
	25	30	35	40	45	50	55
$30,000	14	13	12	10	9	7	5
$40,000	13	12	11	10	9	7	5
$60,000	12	12	11	9	8	6	5
$80,000	**12**	**11**	**10**	**9**	8	6	4
$100,000	11	10	9	8	7	5	4
$150,000	10	10	9	8	7	5	4
$200,000	9	9	8	7	6	5	5

*Doesn't take into account any income survivors can expect from Social Security, investments, or other sources. More or less coverage may be needed, depending on individual family circumstances.

Source: Principal Financial Group

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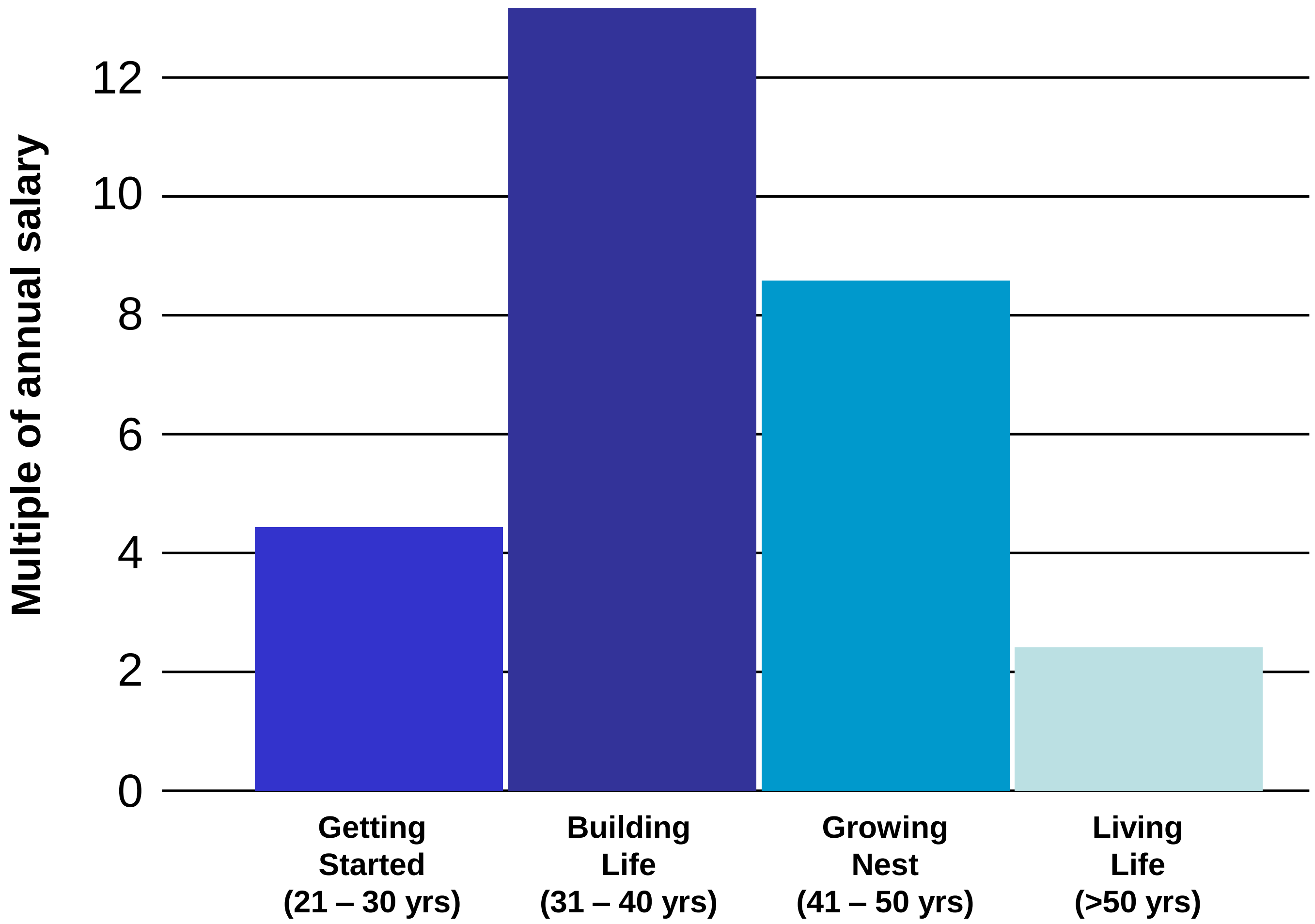
Protection Needs: Life Protection



x by remaining working years

Source: Standard Chartered

Emergency "Fund" – How much?

- Depends on your job
- Depends on your personal expenditures
- General Rule:
  - 3 months of living expenses, if you have investments, family/friends that can provide short term support loans
  - 6 months of living expenses, if you have some instability in your job
  - 12 months of living expenses, if your income fluctuates greatly and you have no ability to get loans

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Investing: Key Factors in Risk

Systemic Risks

- These are risks you have no control over, including:
  - Market Risks
  - Global Instability
  - Interest Rate
  - Inflation Rate

- Example: SARS, terrorism, unstable government, etc.

Non-systemic Risks

- These are risks you can reduce through diversification, including:
  - Geographical Risk
  - Sector Risk
  - Company Risk

- Example: quality of management in a company

Source: Standard Chartered

Planning for Investment Success

- Not building a contingency fund BEFORE investing…you need to have cash in case of unexpected events, instead of selling your long-term investments
- Only focusing on returns…no need, you can't control it…understand your risk appetite and the returns will take care of itself
- Timing the market…it won't work
- Not implementing your investment plan during "economic slowdown" periods

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Common Errors in Investment Strategies

- No written plan
  - Fortune Magazine in 1999 said, people with a WRITTEN PLAN on average ends up with 5x more money than people that don't have any written plan.
- Not knowing what you want
  - What is the goal of the investment?
- Procrastination
  - When is a good time to start?
  - The longer you wait, the less time you have.
- Taking Too Much Risk
  - Investing versus "speculating"

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Common Errors in Investment Strategies

- Taking Too Little Risks
  - Low risk = low returns
  - Putting your money in a fix deposit…it may actually be negative return (considering inflation)

- Blindly Relying On Advertisements & Brochures
  - No company will advertise their "mutual fund" is bad.
  - Understand some basic financial concepts

- Chasing Performance
  - Flipping from one investment to another, to chase performance.

- Accepting Investment Advice From Amateurs
  - Talk to your wealth manager.

Common Errors in Investment Strategies

- Letting Emotions Drive Investment Decisions
  - Greed can sometimes get you “confused”
  - Do re-evaluate, but compare it to your original plan…has your plans changed? If so, adjust your WRITTEN PLAN first.

- Putting Too Much Faith In Recent Performance
  - Recent performance is not a good indicator of future performance.
  - Other financial/company/fund/market fundamentals are important.

Dollar Cost Averaging

- Another method of minimizing risks is through dollar cost averaging.
- Dollar cost averaging simply means investing a fixed sum of money at regular intervals, regardless of whether the market is moving up or down.
- The use of a regular monthly contribution plan to invest will help you to even-out the fluctuation in the cost of the client's investment over time.
- http://www.sec.gov/investor/pubs/financialnavigating.htm
-

Asset Allocation

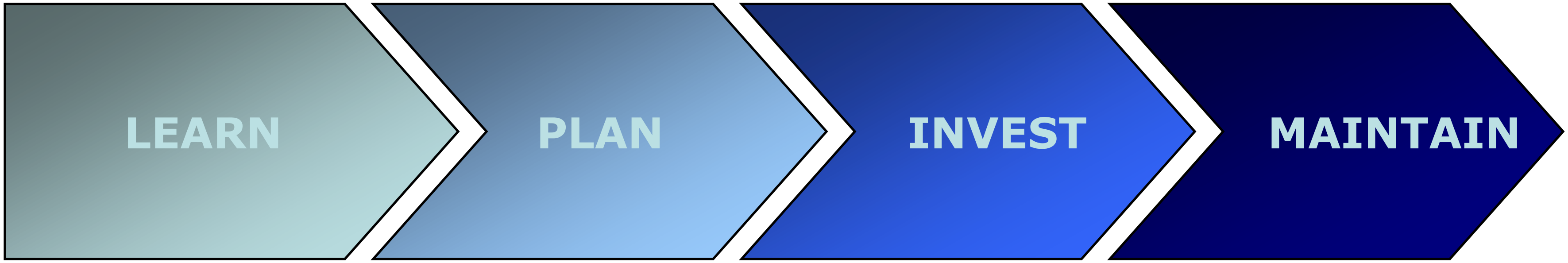
- Its critical for wealth creation
- There is no fixed rule for asset allocation
- But as the age goes up the risk assets such as securities and equity has to be lowered. Stocks..
- Cash, Securites, CDs, Gold etc.
- Industry Sectors – Telecom, Commodities, Tech, Consumer Staples, Energy
- http://www.sec.gov/investor/pubs/assetallocation.htm

Advanced Financial Planning Concepts

Investment Planning – The Flow

Basic Investment Planning

- Typically a customer will go through the following processes in the Investment Cycle



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Customer Journey (Investment)

LEARN → PLAN → INVEST → MAINTAIN

- Learning phase – key needs of an individual Investor:
  - Understand his personal financial situation
  - Understand scope of products and services available
  - Understand high-level goals
  - Understand tolerance for risk
- Planning phase
  - Select specific investment strategy
  - Allocate assets for investment
  - Short-list available products/vendors
- Investment Phase
  - Invest/Buy specific funds or products
  - Sign contracts
  - Transfer funds
- Maintenance
  - Monitor Portfolio performance
  - Rebalance Portfolio
  - Adjust Asset allocation
  - Switch fund allocation/mix
  - Buy/Sell Equity/ForEx
  - Seek taxation advice

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The Wealth Manager

- The Wealth Manager or Private Banker, however, follows his own ‘plan’

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What do the Rich Have?

- Own a Company – Entity and Stock
- Portfolio
- Inheritance
- Estate Issues
- Marriage and Children
- Bank Accts, Broker Accts,
- Trust Accts
- Big 401Ks
- Land, Buildings, Rentals

Rich Have

- Living Trusts
- Insurance Trusts
- LLCs
- C-Corporations for Biz and Equipment
- House ownership? Trust or children?
- Cash Flow
- Dividends
- Oil
- Land with Trees and Management Issues

Rich Have

- Tax Issues
- Jurisdiction Issues
- Document where they live.
- Big Tuition?
- Health Care and Disability Concerns
- Big Insurance for Life, health and disability.
- Big Burn Rate
- Contingency Plans?
- Debt of Companies or personal?

Paperwork In Order

- Wills
- Deeds
- Trusts
- Powers
- Guardian
- Life Policies
- TOD POD and Cash
- Business Succession Planning
- Accounts, Passwords, And so on

10 Things Financial Navigating in the Current Economy: Ten Things to Consider Before You Make Investing Decisions

1. Draw a personal financial roadmap. Before you make any investing decision, sit down and take an honest look at your entire financial situation -- especially if you've never made a financial plan before. The first step to successful investing is figuring out your goals and risk tolerance – either on your own or with the help of a financial professional. There is no guarantee that you'll make money from your investments. But if you get the facts about saving and investing and follow through with an intelligent plan, you should be able to gain financial security over the years and enjoy the benefits of managing your money.

2. Evaluate your comfort zone in taking on risk. All investments involve some degree of risk. If you intend to purchase securities - such as stocks, bonds, or mutual funds - it's important that you understand before you invest that you could lose some or all of your money.

3. Consider an appropriate mix of investments. By including asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can help protect against significant losses.

4. Be careful if investing heavily in shares of employer's stock or any individual stock. One of the most important ways to lessen the risks of investing is to diversify your investments. It's common sense: don't put all your eggs in one basket. By picking the right group of investments within an asset category, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain. You'll be exposed to significant investment risk if you invest heavily in shares of your employer's stock or any individual stock. If that stock does poorly or the company goes bankrupt, you'll probably lose a lot of money (and perhaps your job).

5. Create and maintain an emergency fund. Most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to six months of their income in savings so that they know it will absolutely be there for them when they need it.

10 Things SEC

6. Pay off high interest credit card debt.

- There is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high interest debt you may have. If you owe money on high interest credit cards, the wisest thing you can do under any market conditions is to pay off the balance in full as quickly as possible.

7. Consider dollar cost averaging. By making regular investments with the same amount of money each time, you will buy more of an investment when its price is low and less of the investment when its price is high. t.

8. Take advantage of "free money" from employer. In many employer-sponsored retirement plans, the employer will match some or all of your contributions. If your employer offers a retirement plan and you do not contribute enough to get your employer's maximum match, you are passing up "free money" for your retirement savings. Keep Your Money Working -- In most cases, a workplace plan is the most effective way to save for retirement. Consider your options carefully before borrowing from your retirement plan. In particular, avoid using a 401(k) debit card, except as a last resort. Money you borrow now will reduce the savings vailable to grow over the years and ultimately what you have when you retire. Also, if you don't repay the loan, you may pay federal income taxes and penalties.

9. Consider rebalancing portfolio occasionally. Rebalancing is bringing your portfolio back to your original asset allocation mix. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.

10. Avoid circumstances that can lead to fraud. Scam artists read the headlines, too. Often, they'll use a highly publicized news item to lure potential investors and make their "opportunity" sound more legitimate. The SEC recommends that you ask questions and check out the answers with an unbiased source before you invest. Always take your time and talk to trusted

friends and family members before investing.

End of Class

- Thank You…

References

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