



## How to Write A Personal Financial Plan ©2009

This is an excerpt from *The New Three-Legged Stool: A Tax Efficient Approach to Retirement Planning*, by Rick Rodgers, CFP®. Published June 2009 by Marketplace Books. Learn more by visiting the website at: [www.TheNewThreeLeggedStool.com](http://www.TheNewThreeLeggedStool.com).

At several points throughout *The New Three-Legged Stool, A Tax Efficient Approach to Retirement Planning*, I stress the importance of working with a knowledgeable financial adviser to build and execute your retirement plan. This doesn't mean, however, you can simply sit back and expect your advisor to act entirely on his or her own. Don't forget, *you* are still the most important person in the process; after all, it's your future!

One of the best ways to achieve success with your financial advisor is to write a personal financial plan. From your professional life, you may be familiar with writing a business plan; the financial plan I'm talking about is like a business plan, except it's for investing. This plan should have two parts. First, it should clearly state the terms of communication you'll have with your adviser—how and when your advisor will keep you informed about the status of your investments. Second, it should outline your expectations for your investments themselves, defining your financial goals as well as the type of portfolio you'll build to achieve those goals.

While many investors get only generic recommendations from their advisors, writing a personal financial plan like the kind I've described is your chance to be specific. You'll never regret putting the way you want your account managed in writing. This way, if anything goes wrong, you and your advisor can always refer to your plan to get back on track.

### Part One: Establish Clear Advisor-Client Communication

Your financial advisor may be doing a fantastic job of managing your retirement assets, but if the two of you aren't on the same communications page, you could ultimately end up dissatisfied. It's not enough to achieve good returns on your investments; your advisor must also do a good job of keeping you posted on the status of these returns (or lack thereof). Remember, though—while you should be able to expect a lot of things from a financial advisor, mind-reading isn't one of them. Sufficient communication means different things to different people, and it's up to you to define your version of good communication to your advisor so she or he has a clear understanding of your expectations.

Make the following three steps to clear client-advisor communication an official part of your personal financial plan. Don't just have a casual conversation about them with your advisor; put the terms you agree to down on the same paper that contains your expectations for your investments themselves (which we'll talk

about in part two below). This way, both you and your advisor will take your communications commitments seriously.

### **Three Steps to Establishing Clear Client-Advisor Communication**

**1. Establish a maximum timeframe within which your advisor will return your phone calls.** As with any business, your advisor will likely have many clients but should always do his or her best to make you feel you're the only one! This means returning your phone calls promptly, which is an immediate indication of responsiveness to your needs. In your plan, be specific about how long it will take for your advisor to get back to you; for example, instead of writing, "my calls will be returned promptly," specify, "my calls will be returned within two business days"—and hold your advisor to it! Never accept advisor excuses like, "I couldn't get back to you because I've been with other clients." Your business is too important for that.

**2. Set a schedule by which you will receive written updates on your portfolio.** Traditionally, financial services firms send their clients written updates on a quarterly basis. Expect no less than this from your advisor, and don't hesitate to ask for more frequent updates if this makes you feel more comfortable. With the convenience of the Internet and email, providing you with frequent updates is easier now than ever.

**3. Come to an agreement about how often you'll meet.** While you should feel free to call your advisor with your questions as they arise, you can also expect him or her to commit to regularly scheduled status meetings. These meetings ensure your advisor will set aside dedicated time to focus on you and your portfolio, and you should expect to hear a comprehensive, specific update on your portfolio's status each time you get together. Make sure you build in enough time to ask any additional questions you might have after you hear the advisor's report, as well as to do any necessary portfolio readjustment.

### **Part Two: Create a Detailed Investment Plan**

Once you and your advisor have completed the communications portion of your personal financial plan, which will be based on your mutual understanding of how and when you'll communicate, you can move on to part two: writing your investment plan.

This five-step exercise will help you as well as your advisor. Putting your investment thoughts in writing will encourage you to sort through any internal confusion or indecision you may have had about what exactly you want to have achieved upon retirement. It will also help your advisor to comprehend your current and long-term financial concerns and needs. Finally, it will assist both of you by setting forth guidelines for reviewing your goals and risk tolerance on a regular basis.

**Rick's Tip:** Regular portfolio reviews are a critical endeavor for any investor since, as we painfully experienced in Fall 2008, circumstances in both the financial markets and/or your personal life can cause your goals to change over time.

## **Five Steps to Creating a Detailed Investment Plan**

**1. Define your current and future financial goals.** Any successful financial plan incorporates both long-term goals, like owning a second vacation home or putting all of your kids through college, and short-term goals, such as the amount of money you need to pay your monthly bills. Listing these goals at the beginning of your investment plan will help you structure the plan to meet your needs today and ensure you'll reach your goals tomorrow.

**2. Identify a timeframe for achieving your goals.** It's fine and good to determine the lifestyle you want to have someday upon retirement, but if you don't specifically define what you mean by "someday," you're in danger of creating an investment portfolio that won't meet your long-term goals. As we discussed in Leg Two of this book, you must design your portfolio to include the right mix of assets that will minimize risk while maximizing returns. This mix is inextricably tied to your retirement time horizon and will vary according to whether you want to retire in 5, 10, or 15 years—or longer.

**3. Decide on an acceptable rate of return.** Some investors do their due diligence by establishing their investment goals and time horizon, yet they still end up shocked when they receive their first portfolio statement. That's because these investors likely didn't think about how their goals and timeframe would translate into regular rates of return—which can be disarming for those who plan to retire later and therefore assume more short-term risk to achieve larger long-term gains. Be sure your advisor spells out the types of return rates you can expect to experience based on your goals and time horizon; if you find you're uncomfortable with these rates, your advisor can help you to tweak your plan so it strikes a good balance between your goals and rate-of-return comfort level.

**4. Outline a specific strategy for asset allocation.** From reading this book, you already know how important it is to structure your investment portfolio around the idea of asset allocation. The mix of asset classes in your portfolio contributes to the rate of return I discussed in step 3 above, so it's critical for your advisor to get specific about the types and quantities of assets she or he plans to include in that portfolio. Be sure your plan includes precise details about the combination of the three main asset classes—which you probably remember are cash/money markets, bonds, and stocks—you can expect to see in your regular statements. This will prevent ambiguity and provide you and your advisor with a reference point should questions arise later.

**5. Determine methods for monitoring your portfolio.** At this point, you've finished building a solid foundation for your investment plan. But as I mentioned under part one, changing circumstances can throw a wrench into even the most well-crafted plan. It's imperative, then, that your personal investment plan include

rules for regular monitoring of your portfolio's performance by your advisor. This entails defining the benchmarks your advisor will measure your portfolio against, as well as establishing how often your advisor will review your investments. Though the two of you already established a schedule for how often you'll meet, a good advisor will want to review your plan more frequently than right before your meetings, and proactively contact you should he or she discover issues that must be discussed.

### **Rodgers' Recommendations for Writing a Personal Financial Plan:**

- Writing a personal financial plan helps you define the financial position you hope to be in upon retirement, and provides guidance for the advisor you'll work with to get there.
- You should write your personal financial plan in two parts. Part one revolves around the terms of communication you can expect from your advisor; part two includes specifics about how your advisor will allocate your assets and monitor your portfolio's success.
- Make your plan as specific as possible, incorporating precise details wherever you can. The more specificity you include, the less room for confusion—and the better chance for good investment returns.

You can find tools to help you write your plan at [www.Rodgers-Associates.com](http://www.Rodgers-Associates.com). Click on "calculators".



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