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Last Month:

- **Why Investment Plans Fall Short – Part 1**

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Why Investment Plans Fall Short – Part Two

The first step in planning for the critical years ahead is to keep things real. Plans must be designed using reasonable projections, including the expectation of moderate, inconstant returns. When creating a plan, all potential sources of income should be considered— pensions, 401(k)s, IRA s, stock options, Social Security, etc, and optimized for tax efficiency and total return potential. Inflation, rising taxes, health care and other future costs must also be considered. In addition, projections must be continually evaluated and revised in response to economic, policy, regulatory and lifestyle changes.

Equally key is that individuals understand the ins and outs of the investment. This understanding can strengthen confidence and maintain relevancy. A retiree traditionally relying on fixed income investments may find greater income potential in dividend-paying stocks in today's low interest environment.

Asset classes and global markets are no longer performing as before. To succeed in today's odd correlation of anomalies, global interconnections and extreme volatility, investment arrangements must include a new way of thinking about diversification. Ask yourself, what role does each of my investments play in achieving my goals or in responding to emerging risks such as inflation or rising interest rates?

How are investments expected to behave as market conditions change? Investors and their advisors must answer such questions to ensure both parties thoroughly understand what is in a portfolio and why. While a long-term view of asset allocation remains central, plans also must be able to anticipate and act on market swings, identifying opportunities and risks across and within asset classes. This will allow the investor to enhance returns and limit potential liabilities.

Large cap stocks may do surprisingly well in coming years given stronger balance sheets, favorable earnings growth and exposure to emerging markets. Largely ignored in the most recent rally, large cap stock valuations currently appear attractive compared to small cap stocks. Taking advantage of such opportunities can help position investors to benefit from growth in the U.S. as well as in emerging markets.

An allocation to alternatives offers another potential source of diversification for today's investor. However, investors must recognize that each type of alternative investment can play a very different role in a portfolio. Long or short hedge fund strategies may provide incremental diversification due to the ability to profit in a rising and falling market. Although these strategies usually trail the market during upswings, these may cushion portfolios in times of volatility. Thus, the role is to offset risk and provide downside protection.

When it comes to taxes, plans must focus on one thing, how to minimize exposure to preserve wealth. Therefore, the impact of taxes must be considered in every investment decision. Ideally, the investor and advisor should integrate tax saving thinking into every aspect of a plan, investment strategy, portfolio structure, asset allocation or ongoing portfolio management. This includes the harvesting of gains or losses. Even in the face of uncertain tax laws, investors must consider how to position a plan for the best tax results, rather than waiting until the laws become clearer before acting.

It is also important to look closely at each asset and carefully evaluate tax implications. Each investor's situation is different, but the general rule is to allocate tax-efficient assets to taxable accounts and tax-inefficient assets in tax-deferred accounts. The extension of the lower capital gains tax prolongs the advantages of holding an investment such as a dividend paying stocks in taxable accounts.

When building and implementing plans, advisors should remain mindful of the role other specialists play. Wealth management benefits greatly from the effective collaboration of experts, including accountants, attorneys, business valuation consultants and others. Such collaboration helps to ensure efforts are complementary rather than contradictory and also prevent issues arising from conflicting tax strategies. The idea is for everyone to work together toward a common goal of the individual's long-term success.

Plans should be constructed with the expectation of continual adaptation to changing circumstances. Investors must plan to keep planning. By necessity investment arrangements must remain dynamic in order to leverage short-term opportunities and circumvent major obstacles. In a low tax environment the opportunity to deploy wealth planning strategies and in particular those related to charitable giving. Dynamic plans require constant evaluation, refinement and oversight to ensure fidelity to each client's unique goals. The key for investors is to remain informed, agile, and prepared to act.

A plan must align with and adhere to an investor's objectives. This can be extremely difficult during times of volatility. It is human nature to want to exit a market as the downticks grow more pronounced or to wait for things to settle down before acting. But decisions driven by fear rather than goals can be disastrous.

It is critical for each advisor to clearly articulate to a client the need to affirm objectives. Open communication and mutual accountability will ensure both parties are on the same page and needs are accurately reflected.

Categorize goals in terms of focusing on which objective relates to lifestyle or wealth transfer. Are you more concerned with living comfortably or providing wealth for future generations? Are you focused on wealth preservation or legacy funding? Most wealthy investors have some combination of lifetime and legacy goals, but do not always have a true understanding of the money or means necessary to achieve them. Objective-driven investing can help investors clarify their lifetime expectations and articulate their hopes for lives beyond their own.

Even the best strategies will not succeed unless investors and advisors make a commitment to stick to a plan. Discipline is crucial in particular as the rules keep changing. Only by combining a disciplined approach with insight and occasionally, quick action, will strategies successfully adjust as rules, policies and the market environment changes. Such an approach helps an investor toward the future with fewer detours and considerably more confidence about what's ahead.

To learn whether a plan is able to see them through coming years, an investor must seek unbiased guidance from a knowledgeable advisor. One method involves an objective portfolio analysis to uncover hidden risks and the potential for missed opportunities. Getting back on track is key when a course previously set changes drastically.

In today's environment even the best laid plans will not work if they are based on yesterday's assumptions. Failure during this critical time can ruin an investors' aspirations for future retirement. Now is the time to ensure plans are better designed to help succeed in the years to come.

THESE ARTICLES MAY NOT BE USED FOR PENALTY PROTECTION