

FINANCIAL LIFE PLANNING

Fall- 2007

GETTING UNBOXED

In The Three Boxes of Life: And How to Get Out of Them, author Richard Bolles described the three periods of life as (1) youth, (2) adulthood, and (3) old age. He observed that life in each stage seems to be conducted without much consciousness or preparation for life in the next stage.

High school and college graduates almost universally express that they learned very little in school to help them find jobs or to be successful in their careers. Likewise, workers approaching the end of their careers realize they are ill prepared for life in retirement. Thus, as Bolles explained, “these three periods—in their isolation from one another—end up looking (or feeling) like three boxes.”

Bolles also observed that the box-like nature of these phases of our lives is further accentuated by the way we spend our time. The first period is devoted to learning, the second period is devoted to working, and the third period is devoted to leisure. Instead, Bolles contends, we would benefit more by experiencing a better balance between learning, working, and leisure in each period of life.

In this way, wouldn't we feel more satisfied and more fulfilled? Wouldn't we be maturing as individuals in more positive ways? Wouldn't we be better prepared to transition into the next phase of life?

Meanwhile, as we contemplate these questions, we must live with the reality that “the system” does not advance this perspective on living our lives and preparing for the future. Therefore, it is really up to us as individuals to get “unboxed”—to be proactive

Life in each period seems to be conducted without much consciousness or preparation for life in the next period.

in (1) balancing learning, work, and leisure in each stage of life; and (2) using our current life stage to prepare for the next life stage.

The advice of Dr. Phyllis Moen is similar to that of Bolles. As the Director of the Cornell Retirement and Well-Being Study, her research has led her to conclude that retirement planning should be “a life-long regimen rather than a later-life concession.” In addition, she encourages individuals to “pursue an unconventional life course and to be proactive in developing their own opportunities.”

IN THIS ISSUE—

Getting Unboxed.....	1
The Risk Tolerance Continuum	2-3
Benefits Checkup	4
Financial Literacy	4



THE RISK TOLERANCE CONTINUUM

When you are making a financial decision, do you intentionally weigh the potential risks and rewards? Is weighing that balance more of a rational or emotional process for you? In other words, do you tend to rely more on facts or on feelings?

For example, when Karla got a promotion at the architectural firm where she is employed, she gave serious consideration to buying a new car. She thought about the practical and emotional rewards of having a new car such as: 1) having a dependable means of transportation, 2) getting better gas mileage, 3) por-traying a successful image to her clients, and 4) experiencing the pride and pleasure that comes with owning a new car (there's nothing like that new car smell!).

Karla also pondered the risks of purchasing a new car: 1) higher insurance premiums, 2) increased expenses which would reduce the amount she could invest in her retirement plan, 3) unknown gas and maintenance costs, and 4) the emotional weight of greater financial obligations.

Like Karla, when making financial decisions, we all consider the risks and rewards we might experience. However, some of us focus more on the potential losses (risks) and some of us focus more on the potential gains (rewards).

In the world of investing, when someone asks you about your "risk tolerance," they are really asking you about your emotional response to the possibility of loss versus the possibility of gain. At one end of the risk tolerance continuum are those individuals who are averse to risk. They focus their thinking on the "loss" part of the equation. For them, "risk" is anxiety producing and a factor to be avoided. They want to stick

with the known and predictable. They value stability in their financial lives above all else and are willing to sacrifice higher returns to achieve that sense of guarantee.

When you are making a financial decision, do you intentionally weigh the potential risks and rewards? Is weighing that balance more of a rational or emotional process for you?

At the opposite end of the risk tolerance continuum are those who are addicted

(continued on page 3)

is brought to you by

Legacy Consulting Group

"We provide the opportunity for our clients to live a great life!"

Roger A. Shake CFP®

Steven G. Wachs CFP®

5000 Legacy Drive, Suite 450

Plano, TX 75024

Phone: 972-599-4750

Fax: 972-599-4751

rshake@legacyconsultinggroup.com

www.legacyconsultinggroup.com

© 2009 Money Quotient, Inc.

B
A
I
L
A
N
C
E

THE RISK TOLERANCE CONTINUUM

(continued from page 2)

to risk. They focus on the “gain” part of the equation. For them risk is exciting and alluring; the potential for financial reward is irresistible. In order to “get rich quick,” they are willing to gamble with their money. Financially speaking, they get a kick out of living on the edge and taking chances.

Both of these examples of risk tolerance, risk aversion and risk addiction, are the extremes. Individuals at either end of the risk continuum operate more on feelings than on facts. Those who are either averse or addicted to financial risk are operating in economic “danger zones,” and both types are jeopardizing their long-term financial security.

Therefore, it is important to seek the middle ground on the risk tolerance continuum and to commit to becoming a calculated risk taker. In making wise financial decisions, the calculated risk taker does not avoid risk or exploit risk, but rather learns to manage risk.

It is interesting to note that financial education and self-awareness can “cure” both the risk avoider and the risk exploiter. Knowledge and insight is the antidote for overcoming the emotional responses that can sabotage sound money management and investment decisions.

Therefore, to become a calculated risk taker, you must first become aware of the underlying emotional motivators that repel you or draw you to financial risk. Take time to reflect on the factors that frame your money attitudes and behaviors. In addition, ask yourself if you tend to swing back and forth between risk aversion and risk addiction depending on the kind of financial decision you are making.

The next step is to educate yourself so that you can replace irrational responses with rational decisions. You’ll reap high returns by increasing your financial knowledge. For example, you could take a course offered by your employer, a community

college, or a trusted financial advisor. You could also read books on personal finance that offer sound advice based on proven principles, not the hottest trends or theories.

Those who are either averse or addicted to financial risks are operating in economic “danger zones,” and both types are jeopardizing their long-term financial security.

In addition, consider the following tips for becoming a calculated risk taker and effective financial decision maker:

- Take time to learn the basic differences and similarities between common savings and investment vehicles: savings accounts, money markets, certificates of deposit, bonds, mutual funds, and stocks.
- Learn how to categorize savings and investment vehicles as 1) cash equivalent, 2) income producing, 3) growth producing, or 4) speculative.
- Match savings and investment vehicles to financial goals: short-term goals to cash equivalents, mid-term goals to income producing, and long-term goals to growth producing. Put only “extra” investment dollars in the speculative category.
- “Don’t put all your eggs in one basket.” Spread savings and investment dollars across all categories and in a variety of savings and investment vehicles.

BENEFITS CHECKUP

Are you concerned about an older adult in your family or neighborhood? Does this individual have unmet needs, but you don't know what resources to turn to for assistance? Researching federal and state assistance programs used to be a time consuming and frustrating experience. But, that is no longer the case.

Now you can easily obtain information about benefits and resources that may improve the quality of life of an aging relative or friend. The National Council on Aging has created "Benefits Checkup," a free, easy-to-use service that identifies federal and state assistance programs for older Americans.

Benefits Checkup was developed to address a growing concern: millions of older adults are eligible for benefits, but are not receiving them. Ranging from health coverage to supplemental income to help in paying utility bills, there are millions of older adults who could benefit from a wide array of public programs if they knew about them and knew how to apply.

Benefits Checkup is the nation's first 50-state online service to provide public benefit screening. To access this free service, go to www.benefitscheckup.org. A comprehensive online questionnaire requests data that establishes needs and eligibility. Be assured that Benefits Checkup is completely confidential. It does not require that you submit a name, address, phone number, or Social Security number.

After the data is submitted, Benefits Checkup quickly generates a report of all the benefits and programs for which your older family member or friend may be eligible. In addition, the report includes contact information, special instructions, and documentation needed to complete the applications for assistance.

FINANCIAL LITERACY

Most would agree with the old saying, "knowledge is power." In our financial lives, knowledge not only gives us the facts and framework we need to make sound financial decisions, but also counteracts deceptive money messages that can sabotage our financial future.

Because financial literacy is rarely acquired at school or at home, the responsibility is ours to seek out financial education opportunities. Here are two good resources available via the Internet.

www.rightonthemoney.org —

Right On The Money, is a "how-to" public television series. Each episode offers straightforward advice for people who want to make better financial decisions for themselves. Topics cover every area of one's financial life such as "Understanding Health Insurance," "How to Ask for a Raise," "Adopting a Child," "Gardening for Less," and "Following Your Dream." Click any of the episode titles for complete program transcripts, extended interviews with experts, and links for more information. In addition, Right On The Money will answer questions related to personal finance submitted via this site.

www.wife.org —

The Women's Institute for Financial Education (WIFE) is a non-profit organization dedicated to providing financial education to women in their quest for financial independence. Women face tremendous challenges as they move through life's transitions, from childhood to adult, from college to career, from single to married, to widowhood or divorce, and into their retirement years. WIFE reports, "Our mission is to empower women to succeed and prosper."