Mapping out a long-term financial strategy

You wouldn't start a long road trip without a consulting a Web site such as mapquest.com or using a GPS. The same holds true as you develop a strategy for managing your investments. This particular map is the strategy that will allow you to reach the financial destinations that you have chosen.

Developing an investment strategy is a process—an organized, disciplined approach to making the right investment choices. It's not an end in itself, but a means to make certain that you and your loved ones will be financially secure and that you will have the peace of mind of knowing that you have provided well for them.

We've served as an investment "guide" for many travelers. Here we give the benefit of some of what we have learned.

Do you need to develop a strategy?

The simple answer: "Yes." Most excuses for not having developed an investment strategy really don't hold up to the light of day. Consider a few:

"I'm not old enough." There is no magic age to begin developing a systematic approach to the management of your investments. But the sooner that you begin to set aside money to invest and determine how to invest it, the greater the opportunity you will have to grow a substantial asset base—one that will allow you to achieve the goals that you have established.

"I'm not wealthy enough." The need for planning is not measured on a scale of wealth. Of course, the more that you have, the more sophisticated the planning may need to be. But, really, people at all levels of wealth need to harness their assets and make them work for them.

"I'm already comfortable with doing it as I go." But wouldn't you like to do all that you can to stay comfortable? If you want to grow and preserve your financial resources and provide for your family for the long term, then a strategy is essential.

The broad outlines of the map

Creating an investment strategy that best suits your unique needs starts with a comprehensive evaluation of your current financial picture—an assessment of your resources, long-term goals, strategies, milestones and contingencies. Then you and your advisor can choose the investments that best suit what you have learned from your evaluation. As you proceed, here are some of the key areas that you will want to explore with your investment advisor and some questions to which you will want answers.

• *Your investments*. How should your investments be allocated among the various classes of stocks and bonds? How much risk are you willing to accept? How should your portfolio be managed on an ongoing basis?

• *Income tax considerations*. Without becoming overly aggressive, have all avenues of tax saving been explored? Are investments being managed in a tax-conscious manner?

• *Cash needs*. How much money will you need to have on hand to meet emergencies? A sufficient cash reserve will help you avoid the need to sell off investments at an inopportune time.

• *Your time horizon*. How long is it before you need to reach your particular goals? A sound investment strategy will anticipate and provide for volatility in the stock market based upon when you need to reach those goals. Because time tends to smooth out the short-term bumps in the market, good plans have long horizons.

• *Contingency planning*. What happens if serious illness or injury leaves you unable to manage your investments? What strategies should be set in place?

Two stops along the way

Some trips lead to one destination. Others may encompass a series of stops along the way, each a destination of its own. That latter analogy works best with the management of your investments. Paying for college and building a retirement reserve are two common destinations.

College. How much will you need to have to educate your children? With today's astronomical tuition bills, borrowing may well be in the cards. But starting a regular program of investing—as early as possible—is a better approach.

Tax-advantaged ways to save may play an important role in building up a fund for college. For instance, subject to certain income limitations, a Coverdell Education Savings Account (ESA) provides tax-deferred compounding of your contributions and tax-free distributions to cover education costs. With Section 529 plans, contributions grow tax deferred, and distributions may be tax free as well when used for education costs. But unlike an ESA, a Section 529 plan allows larger contributions, with no income limits.

Retirement. How much after-tax income will be needed annually during your leisure years? What will be the sources for that income? How much capital will be required to fund a secure retirement for you and your spouse? Determining the answers will put you on the path to setting in place the retirement investment strategy that you will need.

When should you review your investment strategy?

Over time, changes in your family and your circumstances can modify your goals. And, as you travel on through life, and your assets grow, your attitude about the risk that you are willing to take may change. Of course, developments in the economy and the markets, as well as national and international events, influence your strategy. On the personal level, reevaluation is especially important when:

- Children or grandchildren are born or adopted.
- Family members pass on.
- Marriage or divorce takes place.
- Significant career or business changes occur.
- Retirement looms.
- A large sum is received (e.g., by inheritance, court settlement).
- Tax laws change.

We're here to help

We will be glad to do a complete analysis (or reanalysis) of your holdings as well as your current and future goals. And, of course, we will help you choose the investments that will put you on the way to meeting those goals. Call on us. We look forward to helping you travel down the road to long-term financial security.

Any developments occurring after January 1, 2010, are not reflected in this article.