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Investment outlook: Time for a change

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There's a reason so many investors are considering a change in financial advisers. The traditional approach hasn't worked during the tsunamic conditions of the past 18 months. In fact, it has major limitations during calm periods as well. It's time for change. Emphasis should be as much on advice as investment strategy and centered on client-specific circumstances, goals and choices, not objectives that apply to everybody. New thinking is needed in the areas of asset allocation, construction of reserve accounts, and risk identification and transfer.

Financial planning

First of all, it shouldn't be all about numbers – the human element is critical and every individual and family is different. An adviser should be centered on what's going on, what's needed, specific goals that can be set and met, and choices that need to be created to counter uncertainty and change. General goals used in traditional planning aren't much help in solving specific problems – e.g.,

accumulating money for a son's education, a daughter's wedding, protecting earnings capacity, securing enough guaranteed income to keep from running out of money, offsetting inflation and likely tax increases, funding spiraling health care costs, withstanding market fluctuations, accidents and lawsuits. Each of these concerns needs specific goals.

The investment side

Let's look at assets and deal with all of them – not just investments. The education of clients is extremely important – understanding that a 401(k) plan is not a complete retirement system, that pension-like guaranteed income is vital, that goals can dramatically change overnight, and much more. Understanding helps clients see why it's critical to extend asset allocation to “non-traditional” classes (commodities, real estate, insurance products) and how this creates options. Non-traditional assets allow the client to transfer specific risks to third parties – whether it's the risk of running out of money because of unexpected medical costs, protecting earnings capacity or shielding assets from accidents or lawsuits. Expanded asset allocation provides protection

during turbulent times while positioning the client to take advantage of the next upturn.

Here's another must. Use reserve accounts to fund critical events (education and weddings, for example) and contingencies (e.g., the potential need for long-term care). These events are too important to be left to the magic of asset allocation diversification – every traditional asset class other than cash and Treasury bills declined severely during 2008. On a more positive note, there are great new products available for reserve accounts. Not only do they provide the necessary liquidity, they transfer specific risks as well.

When to implement choices is determined by experience, awareness and research.

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