As Financial Advisors, We are Not Afraid to Use the F-Word: "Fiduciary"

Several years ago there was a lot in the news about a fiduciary rule that was going to change how advisors worked; the imposition of a fiduciary standard of behavior meant that advisors would have to make decisions and recommendations for their clients in their clients' best interests, and not their own.

Sarah Ruef-Lindquist, JD, CTFA

Otherwise, advisors could charge commissions and earn fees on investments and other financial products that were perhaps questionably in their client's best interests, but were definitely in the advisor's best interests.

'Fiduciary' means essentially making decisions based on the best interests of someone beside yourself. While this isn't a foreign concept to most people, it is not necessarily human nature. After all, survival instincts naturally tend toward self-preservation, not altruism. However, as advisors, we are in the unique position of helping others with decisions that require not only objectivity to understand available options, but professionalism and expertise to advise and recommend the best course of action for a particular individual's circumstances.

Even though the fiduciary rule was not ultimately enacted as part of the regulatory scheme for financial advisors, some of us have always made it our practice to only make recommendations in our clients' best interests. It is easier to do that when your income is not based on commissions from sales. Fee only planners are compensated solely by the client with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product. Fees are usually paid through the investment management of one or more portfolios based on a percentage of their value, or in some cases for consulting work done on an hourly basis.

A question to ask yourself if you have a financial advisor would be are they acting in a fiduciary capacity for you?

Ease Your Way In To The Global Stock Market

Heads up, you know darned well that you have to do something with your money. Something besides enjoying your weekends and getting your hands on the latest electronic gadget. That something, as you have probably already figured out is about getting up close and personal with the world of investments.

Yeah, it may look like a bit of work. It may even not look so appealing with all of those pundits on TV jumping up and down and screaming at the market gyrations. Yet the fact remains that taking care of your personal financial future is your responsibility and yours alone. Unless and until you happen to hit the Big One with the Powerball lottery or some sort of odd windfall, the reality is you need to start putting money away, like right now.

Not under your mattress

> *The only sure thing you can count on is our friends at the Internal Revenue Service (IRS) doing what they do to make sure you pay your fair share.*

Now it goes without saying but better we just go ahead and say it anyway; putting money away does not mean stuffing it under your mattress or throwing your hard earned money at a company stock your pal insists is a "sure thing". Nope, not so much. The only sure thing you can count on is our friends at the Internal Revenue Service (IRS) doing what they do to make sure you pay your fair share. The point of all this: strategically putting your money into the market is a recognized way to help fund your retirement.

Fund the 401(k) first

Now that being said, for the purposes of this article this investing stuff is going to only ever be done after you have maximized your 401(k) plan options at work and after you have also set up your very own Individual Retirement Account. In other words, maximize the retirement plans and options you already have first and foremost. Then, its time to dip your toe into what the pro's refer to as the equities market.

Reality of investment returns

And lest you should be thinking that there are better options out there, well to be blunt, you would be wrong. You see, the truth of the matter is that any investment can show off and have a stellar performance for a short period of time. The bigger and better question is what is the long term return of the investment option you happen to be looking at?

With just a little bit of homework, okay not even that much, you can easily check this out for yourself with a quick Google search.

What you will find is that over the long term, equity investments (think stocks) consistently return an average of 7%. Yes, that includes good years and not so good years. The point is that 7% number is actually pretty high compared to other “so-called” investments such as real estate, gold, or even collector coins.

Ease In Plan

Which brings us to the focus of today’s article: how can you ease your way into the market without taking a beating. Taking a beating would mean something like handing over $2,500 to your online broker only to discover that the value of your portfolio (the stocks you bought) has suddenly and without warning plummeted to like $1,374.00. Ouch! No wonder so many would be investors shy away from the market.

Yet, do not lose sight of that 7% long term return number discussed above. So let’s see where we are. You understand the need to get into the market. Yet at the same time you are leery of investing your hard earned money and risk losing some or all of your cash. Is there a way out of this quandary? Thankfully there is.

The Answer

The solution is to use a strategy referred to as Dollar Cost Averaging (DCA). Although the term itself may sound esoteric, the strategy is ridiculously easy to understand and put into practice. Essentially dollar cost averaging works by you only ever investing a certain fixed amount on a regular schedule. For example, suppose at the end of every three months, you put $325.00 into the market.

In other words, you are funneling $325.00 per quarter into your investments. But, that is NOT the same as putting in a lump sum at the end of the year. The point is to put in the same amount at a regular interval.

What happens is that when the market prices are high, you end up with fewer shares. That’s okay though because the same thing works in reverse. When the market is low, that same amount of money invested will get you more shares. Do you see how easy this is?

A side benefit of dollar cost averaging that could end up saving you from making a catastrophic decision is your investments are on cruise control. That is, Dollar Cost Averaging takes the emotional highs and lows out of the investing thing. Sadly most investors who aren’t up with DCA do the exact opposite of what successful investors do. That is, they buy high (when the market rises) and sell low (usually in a panic when the market drops).

Conclusion

You owe it to your future personal financial situation to get into the market like right now. Knowing and understanding the strategy of Dollar Cost Averaging is an easy way to get started and to keep it going.

Now it’s on you. Have you considered something like dollar cost averaging as a way to ease into the market?

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Post from [Your Finances Simplified]

True or False? – It Takes Money to Make Money

The short answer is YES; of course it takes money to make money. To make money in the stock market, you must have money to make the initial stock purchases. Starting a business requires money to buy inventory, marketing materials, office space and equipment. Even lottery winners have had to have the seed money.

The ability to execute an idea

Great inventors and industrialists became great, not so much because of their ideas, but because of their ability to execute. This is the crucial aspect.

It Really Does Take Money to Make Money

Now before discouragement sets in, I want to stress that it doesn't necessarily have to be your money. As we all know, ideas have value. This *value* can be unleashed by using other people's money (OPM). OPM, has launched many a fortune based on nothing more than a fine idea.

> *What these great men had in common was the ability to execute,*

which as we've already determined, requires money.

Ideas, however, are like sphincters—everybody has one (or more). Taking an idea from wishful thinking to a viable business enterprise requires (you guessed it) MONEY! In the not too distant past, finding the money to turn ideas into realties was an arduous task. Loans from friends and family, bootstrapping with your own assets and credit, angel investors and venture capitalists were the only available sources of capital.

The process of turning an idea into a commercially viable product or service is known in the entrepreneurial community as execution. Great inventors and industrialists became great, not so much because of their ideas, but because of their ability to execute. Samuel Morse wasn't the first to invent the telegraph; Thomas Edison was not the first to conceive the light bulb and the venerable Alexander Graham Bell wasn't the first to envision the telephone. What these great men had in common was the ability to execute, which as we've already determined, requires money.

History of these inventions

If we delve into the history of these three inventions, we learn that an Italian, Antonio Meucci, was the first to develop a working telephone. He filed a temporary patent 5 years before Bell but poverty and poor health prevented him from paying the patent office the $10 fee required for the patent's renewal.

Heinrich Goebel was likely the first to invent the light bulb. In fact, he tried selling Edison on the idea but Edison wouldn't bite. Goebel died a couple of years later and Edison bought the patent from Goebel’s impoverished widow for a song.

A French inventor by the name of LeSage invented the telegraph 60 years before Samuel Morse. The idea didn’t take root in France but Morse brought it to fruition here in America.

These examples demonstrate the important roles money and execution play.

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Post from [Your Finances Simplified]()

Uncommon Wealth Building Wisdom – The Benchmark

There is a common trait that shows up on the road to building your wealth. This trait shows up as you continue to add to your investment portfolio. You do have an investment portfolio don’t you? And don’t even start the blame game when this trait is revealed in just a moment.

Here is what this is all about: in a word, Benchmarks. In and of itself, a benchmark would seem to be an important part of evaluating the performance of your investment portfolio. And, truth be told, if there were actually one accepted benchmark that could be universally applied, that might actually work. But the reality is that investment performance is not so simple.

Get a better benchmark

Instead of always trying to play catchup with an industry benchmark, there is a better strategy. A strategy that will allow you to grow and expand your portfolio over time without freaking out every time you see your portfolio statement.

Lessons From The Diet World

> *You are barely into the entryway of the store before you notice the section with the largest selection of books. Yep, it's weight loss.*

Here's an analogy that illustrates the point being made here. Head into any neighborhood Barnes & Noble or similar bookstore. You are barely into the entryway of the store before you notice the section with the largest selection of books. Yep, it's weight loss. The point for you to see here is that if there were one diet that worked for everyone and every circumstance there would not be such a wide selection of diet books on those shelves.

The exact same concept applies to the world of investing. You can prove this for yourself with a quick Google search. Search for investment benchmarks and you get something like 26 Million Search Engine result pages. Obviously there are not that many ways to measure the performance of your investments, but still, the point should be glaringly obvious.

What "They" Say

Now take a look at the world of investments. Suppose you have a diversified investment portfolio that you have been funding for a few years. What do "they" tell you to look at? Most often, investors are told to compare the performance of their portfolio to that of a major benchmark. You might even discover that your financial advisor is using this benchmark to demonstrate how well you are doing. Suppose your portfolio is being compared to the S&P 500.

Actually, the S&P 500 is a commonly used portfolio performance comparison benchmark. How does this show up in the real world? Suppose you pay for the services of a personal financial advisor. Your advisor might send you a glowing report this quarter indicating that your investments outperformed the S&P 500. Wow! Your advisor is a genius. How about if you send in some more money?

Hold on a sec! What about the other side of this equation? Suppose, the next quarter you get a different letter. This time your advisor is lamenting the fact that for some inexplicable reason your portfolio lagged the S&P 500. Now what? Is your advisor an idiot? Or is there something else going on here?

Wrong Benchmarks

You see, the reality is that if the last scenario turned out to be true, you might not have reacted so well. In fact, you may have found your self dialing your advisor to find out what the_____ is going on here?

What’s going on here is you are engaged in a comparison game that does not make sense over time. As you have probably noticed by now, the market goes up and the market goes down.

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Post from [Your Finances Simplified]

Top Budget Hacks for Planning and Accounting

Something most rags-to riches stories have in common is that a good budget is always needed to help anyone achieve financial security. If you want to significantly improve your credit, you have to learn how to pace your spending and increase your savings.

Top notch advice

There is no better medicine for bad spending than to see what you have to pay for in the future to live the life you want. In this article we'll offer you some top notch advice on budgeting and accounting:

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1 – Keep Detailed Records

Most people don't keep track of every little expense they make.

People usually rely on the online banking records to calculate their expenses. This is quite effective when it comes to having an overview, but it doesn't help you keep an eye on bad expenses and avoidable spending.

Make a folder on your computer, as not to waste paper and to be able to edit easily, and write down everything you spend in an 'expenses' file, while also keeping track of all incoming money on an ‘income file’.

At the end of each month and each year you should check how much of your money went to avoidable, ‘bad’ expenses. Cut down on frivolous spending and watch your savings grow.

#2 – Predict Large Expenses

> *The number you’ll get will probably shock you, which is a good thing. There is no better medicine for bad spending than to see what you have to pay for in the future to live the life you want.*

It might sound like an obvious tip, but you’d be surprised how few people actually plan ahead for the major expenses during their lifetime.

Buying a house or paying rent for life is one of those predictable, large expenses. Having a child (or many) is a predictable expense. If you include a few cars, a couple of large trips, furniture, college debts and similar big expenses, you can have a good look at what kind of money you’ll need to achieve the lifestyle of your dreams.

The number you’ll get will probably shock you, which is a good thing. There is no better medicine for bad spending than to see what you have to pay for in the future to live the life you want.

#3 – Make a ‘Get-Rich’ Plan

Expert financial planners, like Dominique Brown, would advise anyone who wants to become rich to make a solid plan to achieve that goal.

Riches rarely come to those that simply wait for them. This does not mean that it is takes extreme effort to become financially secure either.

What you really need is diligence. Make a plan on your own, or get the help of a professional, and learn to stick to it as if it were a religion.

Learning to live with a strict (if not tight) budget, will help you learn to keep frivolous spending in check.

Remember that no matter how much money you make, you can easily spend it all on some luxurious stuff you don’t need and end up being poor again. Being truly rich for life means that you have to work for it and keep ahead of the financial game at all times!

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Post from Your Finances Simplified

Tips for Avoiding an Out of Money Experience

Do you run out of money before you run out of month? Many do, but it doesn’t have to be that way! Wealth is the result of widening the gap between what you earn and what you spend. Most of us make the mistake of ramping up our spending as our disposable incomes rise. This is self-defeating. If you do not develop a respect for money, it will always elude you.

You Need a Plan

We call this a budget. That’s a four letter word to some people but if you count the letters, it’s really a six letter word … like friend. If thinking about budgeting makes you throw up a little in your mouth, try thinking of a budget as your friend.

This friend will make sure that the month and your money expire at the same moment in time. This friend will rescue you from the endless cycle of debt that traps so many of us.

You know the routine. You are out of cash with almost a week until payday. You hit the ATM for a cash advance on your credit card so you can get by until the end of the month, or worse yet, you sign-up for a payday loan, plunging yourself even further into the vicious cycle. This is not a plan! This is a band-aid!

Establish Goals

> *Goals are nothing more than a performance benchmark. Without goals, you have no means of measuring your progress.*

Make whatever goals you set realistic. Nothing torpedoes ambition like missing a goal. For this reason, in the beginning, set modest goals. Just getting through the month with no borrowing is a real accomplishment. Remember—budgeting and planning are processes, not overnight cure-alls. When you master one goal, more aggressive goals can follow, like setting aside some savings.

Performance Benchmark

Goals are nothing more than a performance benchmark. Without goals, you have no means of measuring your progress. Make whatever goals you set realistic. Nothing torpedoes ambition like missing a goal.

Next Steps

Living within your means, which is nothing more than making the money you receive on payday last until the following payday, is only the first step. Accomplishing this critical first step, as stated previously, requires a budget and the establishment of short term goals. But laudable as this may be, you are still living paycheck to paycheck.

Oh, you’ve made progress—you are living paycheck to paycheck on your own money rather than borrowing money and increasing your debt. So what’s next? Next steps hinge on how you define your medium and long term goals. No one can define these for you, certainly not me!

Maybe your end goal is a comfortable retirement, an early retirement, travel, a huge bank balance, a dream house, unfathomable wealth or all of the above. Regardless of your goal, you must have a plan, a roadmap to get you to the destination you have chosen, and this is much more complex than drawing up a budget. The following tips are critical ones, regardless of what your medium and short term goals may be, and will help you achieve success beyond your wildest dreams.

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