

Twelve Steps to a Life of Financial Peace

Step 11: Revisit, Revise and Update Your

“Only the wisest and stupidest of men never change.” Confucius

In an earlier article, when we discussed setting specific goals, I used an analogy of an airline pilot. This month we revisit that story. Our pilot realized that it would indeed be important to have a very specific flight plan to get from LA to New York City. He prepares a very detailed flight plan and files it with the flight operations center. Now, he is ready to go. He is going to follow that plan exactly as he filed it with no variations.

The problem now is that his plan assumed that there would be 40 Knot winds out of the south. In reality, the wind has shifted about one hour into the flight and now they are out of the north at 40 Knots. There is also some very turbulent air at his planned altitude. So, a few hours later the plane lands at the airport. The passengers are relieved to be on the ground, after the bumpiest ride they have ever experienced. Imagine their dismay when they realize they are in Charlotte, not New York City! The pilot's response to their complaints: “Hey, I had a very good flight plan and I followed it exactly.”

Do you think the passengers would be very sympathetic to this pilot? Of course not! Yet, often we do the same thing as the pilot did when it comes to our financial planning. Many people do a pretty good job with the creation of their plan and actually implement the strategies it calls for. However, they only look at or reconsider their plan if there is a significant change in their financial circumstances. The truth is a financial plan is just like charting a course. The sooner we discover the need for modifications, the less disruptive the adjustments need to be.

Revisit

At least once each year, you should pull out your plan and revisit the whole thing. That means reviewing your thought process, as far as what is important to you, your goals and time frames. You do not have to recreate the whole thing, but you should go through it point by point to make sure nothing has changed.

In addition to revisiting your values and goals, you should revisit your assumptions and track your actual results against them. This is where you determine if each of the components of your investment plan is functioning the way you anticipated them. You should not only look at the performance of an investment, but all of the reasons you selected it in the first place. For example, if you selected a particular vehicle because there has been stable management and consistent performance and you find that there was a large shake up in the management team, this would be a candidate for replacement.

You should make a list of all of the concerns you uncover throughout this step. You should also pull out your action plan, at this time, and determine if there are any actions steps you have not completed. Once you have all of the concerns and action items, you are armed and ready to move on to the next step.

Revise

The plan needs to be revised if there are any items at all on your list. You should consider what impact each of these items would have on your entire plan. Do you need to change a goal, because an investment has under performed for so long that you will not be able to recover? Have you realized that there was an important personal value missing from your original plan, so that you have to change your goals? Did your insurance (or other expense) go up so much higher than planned that you can no longer save the amount you planned?

Whatever the issues are that require a change or adjustment, you should make them right away and determine the impact they have on your plan. If the outcome has changed considerably, you may want to go back to your original plan and do it all over again.

Update

Most often we do not have to revise the entire plan. We can usually make very modest adjustment along the way. Once we have made the adjustments, we should update the plan and recalculate our expected outcomes. It always provides positive reinforcement to find out we are on course or actually a little ahead of our plan. It is always better to know bad news sooner rather than later. The adjustments you have to make will be considerably less uncomfortable that way.

Go ahead and dust off those old plans and begin the process of revisit, revise and update so you do not end up landing somewhere different than you had originally planned.

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