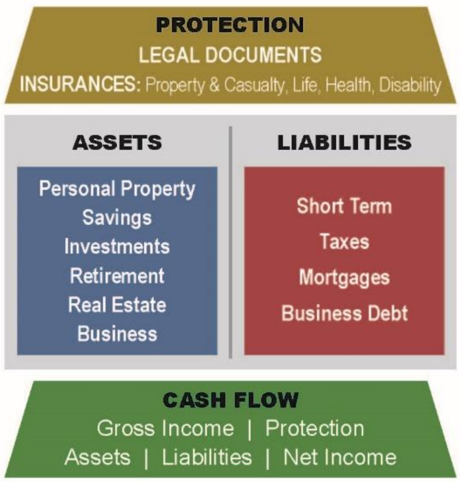
Bob and Lisa and their Adventures with Assets

Back in August, I introduced you to my newest clients, Bob and Lisa, and how we started on an exploration of the four Domains of their financial life: **Protection**, **Assets**, **Liabilities**, and **Cash Flow**. Last month, we described the elements of their **Protection Domain** and some of the work we will do together to address the risks in their life that, if they occur, could throw a big wrench in their saving and investing plans. This time, let's see what's up in their **Asset Domain**.



As you can see in the Financial Domains diagram, our personal property – homes, cars, jewelry, artwork, and other possessions – are assets. However, they really don't work too well as such because they typically are not liquid and they don't produce a stream of income. We include these items on Bob and Lisa's balance sheet, but our work together will focus in more on the assets that will either build spendable wealth for them, or can be used to generate income, especially in their retirement years. Bob and Lisa don't own a business, and they are not interested in rental real estate for now, so we're going to focus on savings, investments, and retirement planning.

When it comes to Bob and Lisa's Asset Domain, my philosophy of care rests on 1) rate of savings, 2) minimal risk, 3) tax advantages, and 4) liquidity. Let's consider, for example, rate of savings and risk.

Unfortunately, many of us try to make up for lack of savings by chasing rate of return through a high-flying investments. Oftentimes, this happens because people wait too long to start saving and investing, and then try to make up for lost time. Thus, they are in danger of exposing themselves to a lot of risk, and entrusting themselves to the volatility of the financial markets, which is beyond their control. However, Bob, Lisa, and I discussed that a better approach to building their Asset Domain will be to focus on rate of savings (which they can control), rather than rate of return (which they pretty much can't).

For example, the first thing to do is build up their savings account a bit so they have risk-free, fully-liquid money for emergencies. Although, in my opinion, the credit card companies would have us believe otherwise, there is no substitute for cold, hard cash (or a check) when it comes to paying for an emergency repair at home, new tires for the car, or some other big-ticket item. Likewise, even though Bob and Lisa have good jobs and are likely to have stable careers, I want them to have enough savings to cover at least four months of living expenses, just in case. To make their job a little easier, we're using a monthly draft from their checking account to send money into their savings account automatically.

Secondly, Bob and Lisa should take advantage of the biggest gifts they have right now: time and the power of compounding. They're in their early 40s, and they have at least 25 years to invest for their future. Their potential for building wealth is a thing to behold. Consider this example. Bob and Lisa start investing $6000 per year, divided between their retirement plans at work and a joint investment account, and they decide to increase the annual amount by 5% every year for the next 25 years. I can't make any guarantees, of course, but the math says that, at an average annual rate of return of 7%, they could amass approximately $655,000.[1] Now, that probably won't be enough for them to retire on, but the total doesn't include the contributions their employers will likely make to their retirement accounts, nor does it include their potential Social Security benefits. It all adds up, and it takes only time and patience.

Bob, Lisa, and I are on an exciting journey together. For sure, there will be plenty of ups and downs along the way, but they're off to a great start.

So, what about you? If you're ready to take control of your financial life, or, if you'd just like to make sure you are on course, call me, and we'll talk.

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This is a hypothetical example and is not representative of any specific situation. Your results will vary.

[1]The hypothetical rate of return used does not reflect the deduction of fees and charges inherent to investing. Investing involves risk, including loss of principal.