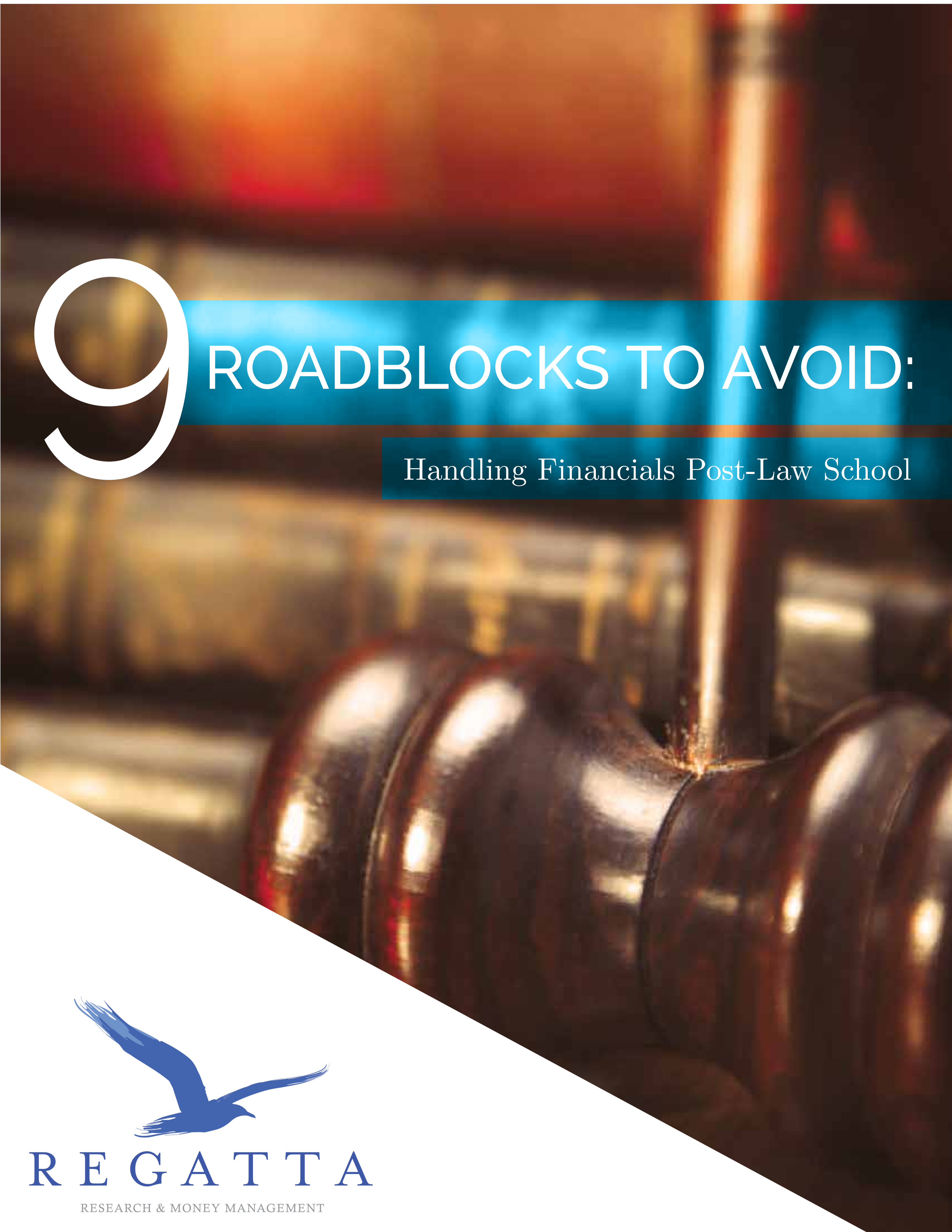

9 ROADBLOCKS TO AVOID:

Handling Financials Post-Law School

REGATTA

RESEARCH & MONEY MANAGEMENT

The importance of taking care of your financials after graduating from law school in a best practices fashion is critical given the poor employment prospects for attorneys. The field of law was hit especially hard by the 2008 crash and subsequent recession. Work dried up for many large firms, and what few clients were still hiring lawyers had more bargaining power. They demanded rate discounts and special—or alternative—fees. They also pushed back on the training of newbie lawyers on their dime.

Law firms responded by trimming their ranks and substantially shrinking the number of lawyers hired right out of law school. It's not just big law firm jobs that went away. Public interest, in-house counsel, and government jobs also dropped.

The dismal job market for attorneys is aggravated by the large amounts of debt many law students have taken on. According to the American Bar Association, the average debt taken on by a law school graduate was $84,000 if you attend public schools and $122,158 if you attend private schools. This is just for going to law school and doesn't include the cost of undergraduate education.

The larger issue with taking on so much debt for a law degree is that the majority of this money has to be borrowed through private student loans, which offer far fewer student loan forgiveness options and repayment plans. This just leads to more borrowers being in financial trouble for attempting to go to law school.

Our goals in this whitepaper are twofold. First, to help you avoid repeating the 9 financial mistakes that, in our decades of knowledge and experience working with and coaching with attorneys, we see many of them make, especially when they are first starting their careers. Second, to show you the keys steps you need to implement right out of the gate to increase your chances of achieving financial success.

ROADBLOCK #1:
DISORGANIZED

Many attorneys' personal finances are disorganized and/or constantly put off until it's too late. They sometimes work aimlessly without financial objectives, priorities or deadlines that hinder effective and proactive planning.

The solution is fairly simple: Invest the time and the work into getting organized.

- Create a *filing system*: Make sure you create a system that incudes your brokerage statements, real estate investment, automobiles, insurance, student loans, and any type of revolving debt such as credit cards. A physical file cabinet along with manila folders as well as software and apps can help you implement this properly.
- *Calculate your net worth:* Your net worth is really everything you own of significance (your assets) *minus* what you owe in debts (your liabilities). Assets include cash and investments, your home and other real estate, cars or anything else of value you own. Liabilities are what you owe on those assets including car loans, mortgage and student loan debt.

Calculating your net worth is very helpful. It's a great measure of financial health. By comparing your net worth on an annual basis you can get a really good feel for your financial well being. If your net worth is rising each year, you're probably in good financial health. If your net worth is shrinking, you'll want to take a closer look at your finances to see what's wrong.

ROADBLOCK #2:
NO WRITTEN BUDGET

The other roadblock, particularly with many attorneys, is living beyond their means. Too many attorneys have a preoccupation and expectations placed upon them of maintaining the image of being a lawyer. This means fancy clothes, expensive vacations, large, sometimes-ostentatious homes, and new cars. Spending too much is a recipe for frittering away your hard-earned wealth and not having enough for when you want to retire and for funding the things that are truly important to you.

Unfortunately, they are not alone. According to a 2013 Gallup poll, "Only 32% of Americans put together a budget each month to track income and expenditures."

Creating a budget is a key step in resolving this issue. A budget is simply a plan for spending and saving money that looks at the immediate future, such as one month, six months or one year.

It's easy to do. Simply start by recording your monthly gross income, tally your monthly expenses and net it out. Then set your budget goals and allocate your resources to meet your goals.

You will receive three payoffs from investing the time to create and monitor your budget:

- *Spot excessive spending where you are living above your means:* Are you abusing credit cards? Are you spending too much in certain areas? Pay attention to items like eating out too much, that may not seem like a lot, but can add up to large amounts over time.
- *Allow you to save for long-term goals while meeting present ones.*
- *Help you better manage cash flows.*

ROADBLOCK #3:
SLASH UNNECESSARY EXPENSES

Now that you have set up a budget and determined areas where you are spending too much, it's time to cut unnecessary and frivolous expenses.

Look out for these four key areas:

- *Reduce your entertainment expenses:* Even small amounts can make a big difference over time. For example, if you're eating a lunch out every workday, you probably spend at least $5 a day. Five dollars a day equals $25 a week, which equals $100 a month, which equals $1,200 a year. You have better uses for this money, such as paying for your children's education or even retiring early.
- *Buy used rather than new cars:* If you're going to buy a car rather than lease it, consider buying one in roughly the fourth year and then letting someone else take all that depreciation. New cars, for example, depreciate about 20% as soon as you drive them off the lot. The second and third year they depreciate approximately 15% a year.
- *Do not buy too much house:* Buying as much house as you can qualify for rather than what you can afford is a mistake. Many asset classes have historically appreciated at a greater rate than residential real estate. Having too much tied up in your home can result in a significant opportunity cost and concentration risk of having all of your eggs in one basket. Here is a rule of thumb: The cost of your house should not exceed 2 to 2.5 times your annual income.
- *Reduce your investment expenses:* Avoid commissioned mutual funds, annuities and other investment products. Studies have shown that they often perform worse than less expensive no-commission mutual funds, ETFs, and commission-free annuities. Also, consider working with a company that does not sell their own products and offers a wide variety of investments to reduce conflicts of interest and high fees. Finally, when you change jobs, consider rolling over your 401(k) at your former employer to an IRA at an inexpensive provider. You will get rid of administrative fees and may considerably reduce the hidden high investment expenses in many employer sponsored plans.

ROADBLOCK #4:
TOO MUCH DEBT

Many of today's young lawyers carry large amounts of debt.

According to U.S. News & World Report, the average Louisiana State University Baton Rouge, Hebert school graduate has $81,161 of debt.

Debt is like a millstone around many young attorneys' necks. Many start out with their financial house under water and have to play catch-up, everything from college loans to law school loans to car loans, credit card debt and mortgages.

The solution is to set up a debt management plan that should include the following elements:

- *Assess your debt:* How much do you have?
- *Determine the payoff amounts.*
- Create short, mid and long-term strategies for managing it.
- *Fixed or variable? Lock in your rates if you have the opportunity to do that, particularly if they're going up, and work out a plan to pay off your debt.*
- *Determine the payoff order of debts:* Select higher interest rates over lower ones, favor variable over fixed particularly with the rates going up and non-dischargeable and bankruptcy over dischargeable ones.
- *Talk with professionals who are knowledgeable in the area, such as independent debt counselors and a financial planner.*
- *Work to get reductions in your debt by automating your payments and paying on time.*
- *Consider consolidating your debt.*
- *Avoid getting into credit card debt again by setting up an emergency fund, typically 3 to 12 months of expenses.*
- *Do not focus on one goal alone such as only paying off student debt:* For example, some young attorneys only pay off debt and do not participate in their employer's retirement plan and thus miss out on tax deductions, tax deferred growth, and not to mention employer matches, which are the equivalent of free money. A solid financial plan addresses multiple concerns and should allow you to invest and pay off your debt at the same time.

ROADBLOCK #5:
INSUFFICIENT SAVINGS

According to Bankrate, *"More than three-quarters of Americans don't have enough money saved to pay their bills for six months."*

Creating a budget and reducing expenses will allow also you to increase your savings.

To best take advantage of this newly freed up money, implement a savings plan. The first step is to create both short and long-term saving goals. Your short-term saving goals should include an emergency fund to get through six to 12 months of bar expenses, studying, and job searching after graduation. Your long-term savings goals should include ultimately getting up to savings of 20% of your gross income every year.

Additional savings tips:

- *Pay yourself first:* Set up automatic deductions from your paycheck to fund your investment. Even small amounts could add up quickly and are psychologically important to help you cultivate a habit of saving.
- *Get started even if it is a small amount:* Even if you're paying off law school debt, start with a base amount of 1% of your gross income and gradually working your way up over time to 20%. Whatever you do, don't wait. You cannot assume you will earn more money one day. An attorney's income could be highly erratic even during the high-income years. Even small amounts saved can place you in the position of taking advantage of market selloffs, distressed real estate and other business opportunities
- *Save bonuses, tax refund, large case fees or inheritances.*
- *If you set up your own law firm, make sure you establish an employer-sponsored plan such as a SEP-IRA or a Roth 401(k): These plans will allow you to save more money while also receiving tax advantages, such as a tax deduction and tax deferred growth or tax free growth, respectively.*

ROADBLOCK #6:
INABILITY TO DELEGATE

Attorneys tend to be take-charge individuals. However, much like the attorney who represents himself in legal matters, the do-it-yourself financial planner lacks the objectivity to consider all the options and issues. Attorneys are also highly intelligent, critical thinkers in case work, but sometimes overestimate the ability to handle in a best-practice fashion their personal finances.

The best practices solution is to build a team of trusted advisors. This should include both a financial planner, who often acts as the "quarterback", and an accountant as your core team. Depending on the complexity of your finances and your stage of life, other "team" members may include estate planners and insurance experts.

ROADBLOCK #7:
NO COMPREHENSIVE WRITTEN FINANCIAL PLAN

According to the CFP Board survey May 2012, "Only 31% of the more than 1500 respondents said they had a comprehensive financial plan."

Even though many attorneys know that they need a financial plan, many don't do it. They table it and table it and table it, putting it off until it is too late.

Why? Some view it as time consuming for one. They erroneously think there are more important things to do. Some believe that they can't invest now, or they have too much debt to pay off, or they need to "invest in depreciating assets", such as nice cars, nice clothes, country club memberships. Then family responsibilities arrive and then mortgage payments on a big, beautiful house.

Then they'll say, "I will do it when I become partner, or when I win that large contingency case." Sometimes that big case never comes or the partner level income is less than imagined.

Unforeseen expenses may also intervene. It could be illness or disability. They may become unemployed, divorced, or widowed. There could be a market crash. They may make poor investment decisions. Regardless of the reason, the result is often the same. 20 or 30 years from now, when they're close to retirement and wake up to the fact that they haven't saved enough, the panic button is pressed. Unfortunately at that stage, there is often very little that can be done.

Getting a written financial plan done, and done early, is one of the markers of attorneys who are financially successful.

This written financial plan should detail your goals and prioritize them, creating a hierarchy to realize your short-, intermediate- and long-term goal lines. A carefully worked out plan will help you accumulate assets more rapidly, cope with emergencies, spend on what you need, what you enjoy and can keep track of progress.

ROADBLOCK #8:
POOR INVESTMENTS

According to DALBAR, "Over the past 20 years, individual investors have averaged 5% annualized returns versus 9.2% for the stock market. Investors in fixed-income funds did worse, the average annual return of 0.71% versus 5.75% per annum for Barclays Aggregate Bond Index."

There are two main reasons for the poor performance of many investors: the lack of a system or process for making financial decisions and the use of financial advisors who have numerous conflicts of interest, rendering themselves unable to offer objective financial advice.

First, the underlying problem is that attorneys spend much of their time protecting, litigating and negotiating with other people's money. Many of the same lawyers, who take great care of their clients, treat their own finances with a lack of care with investment of time that often borders on negligence.

An attorney's priorities are where they should be: meeting deadlines for clients, organizing materials for clients, and vigorously representing their clients. As a result, they're pressed and stressed for time more than ever. There is also increasing competition between firms and increasing pressure to meet available hours. As a result, attorneys are often forced into making impulsive, rather than thoughtful, deliberative and informed, investment decisions.

Financial planning and investment decisions were often made, not in a deliberative manner, but rather during crises, resulting in frequent moves from one financial product to another with no systematic or process-based approach. They are also subject to relentless sales pitches from insurance agents and stockbrokers touting the latest expensive insurance plan, hot investments, or engage in unsuccessful market timing.

The solution is straightforward. Hire a trusted financial advisor who is planning and process, not product focused.

In making a decision as to who to work with, you need to know about the two primary types of financial advisors, a Registered Representative and a Registered Investment Advisor:

A REGISTERED REPRESENTATIVE typically works for an insurance company, bank, or brokerage firm.

- *Primary function:* Facilitates securities purchases and sale transaction for clients transactions.
- *Compensation:* They are usually compensated by commissions on product sales and transaction fees when investments or bought and sold.
- *Responsibility to client:* Typically not held to a fiduciary standard when making a recommendation, but rather held to a "suitability standard". Suitability standards say they can recommend certain securities or investments if they believe they are *suitable* for a particular investor – but they are not required to put your best interest first.
- *Regulation:* FINRA (Financial Industry Regulatory Authority), SEC (Securities and Exchange Commission) and state regulatory agencies.

REGISTERED INVESTMENT ADVISOR

- Primary function: Advice
- Compensation: Typically charge a fee based on a percentage of total assets managed. No commissions or transaction fees are charged.
- Responsibility to client: Act as a fiduciary to the client. Black's Law Dictionary describes a fiduciary relationship as "one founded on trust or confidence reposed by one person in the integrity and fidelity of another." This includes the duty that the client's interest are placed before that of the RIA, as well as transparency and required disclosure of any conflicts of interest.
- Regulation: Overseen by either the SEC or state regulatory agencies, depending on the size of the assets under management.

Selecting a financial advisor you can trust and who will help you implement a process and system will significantly increase your chances of achieving financial success.

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