

# The Virginian-Pilot

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## SYSTEMATIZE YOUR RISK MANAGEMENT

THERE ARE MANY financial systems in our society, and many of them are flawed, as evidenced by the 2008 financial meltdown that significantly reduced people's wealth.

One way to decrease damage like this in the future is to insert a systematized element into your financial process. This type of element usually is found in a wealth manager who is not beholden to corporate boards, corporate agendas or shareholders.

Wealth managers have the capacity to go well beyond the question of "which mutual fund or annuity is right for me?" They are not one-dimensional. They are holistic in their approach to the marketplace. With a core focus on prudent risk management, they understand the short- and long-term implications of each position or strategy that is implemented.

Systematizing your risk management is a smart way to help ensure your wealth management moves in the right direction. As we all perhaps are aware, the No. 1 mistake in the marketplace is human error. By systematizing that which is traditionally humanized, you can reduce damage to your overall estate.

Individuals should ask their financial adviser to explain their

defined process for risk management. Be aware of the number of decision points that have to be made and what the potential consequences are to you. As anyone in business knows, the fewer the number of decision points means the lower the chances are for human error, which produces the potential for a higher level of success.

Make sure your risk management works both ways. Most wealth managers' compensation is tied to the clients' gains and losses, which is contrary to many financial systems that make money whether you do or not. Arranging the client relationship this way makes it devoid of conflict. Systematizing your wealth management in this way creates a fair and balanced situation.

Systematizing your risk management also includes conducting a "systematic stress test" on it. Imagine flying in a commercial aircraft that never went through a stress test before its first flight, or an aircraft that recently went through severe turbulence and was not subjected to a thorough inspection and stress test before the next flight. Would you be a little concerned?

Several important stress test questions that should be asked about your adviser's risk management system are:

- Are we positioned for the conditions that are before us? For example, with rates at historic lows, how might our bonds react in a rate reversal?
- What portion of my estate is vulnerable in the event of a disability?
- What is the percentage loss of my estate due to such taxes as the estate tax or the Income in Respect of a

Decedent tax, which is rarely discussed?

Ultimately, risk management should include elements that systematize that which is traditionally humanized. Thus, if the human element breaks down, the system element is there to minimize the damage. This is part of the process that an efficient proactive wealth manager offers to clients.

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