



## The Advisor as Advocate

### Part One

*By Michael Mitchell*

#### Introduction

*Today, we tackle the issue of financial planning versus coaching. Until recently, the distinction may have been one of semantics for most investors. But increased market volatility and the apparent vulnerability of traditional investment strategies have investors rethinking what they should expect from their advisors.*

*Where they once wondered, “Can a different advisor provide better returns?” many now ask, “What’s missing from my advisory relationship?”*

*To help ferret out the differences between planning and coaching, I visited Donald Todd, president and founder of Oregon Pacific Financial Advisors. Todd, a Chartered Financial Consultant (ChFC®), has spent the past thirty years as a financial coach and advocate for high net worth individuals and business owners. His unique focus on lifestyle management has earned him a reputation as one of the financial industry’s coaching pioneers.*

#### Interview

*Mitchell: Don, the concept of coaching versus mere planning has garnered a lot of publicity recently. Many people seem to think it’s a relatively new concept, but you have been practicing what you refer to as lifestyle management for two decades. What’s the difference?*

*Todd: Too often, the focus of an advisory relationship is exclusively on investment performance. And the performance is never enough. People always think they have to have more. It becomes a race instead of a relationship.*

*I evaluate each client’s spending patterns and projected future living costs, factoring in portfolio rates of return and potential lifestyle changes the client may experience. Then I measure whether the result is a surplus or deficit. Typically, that represents the present value of a future surplus.*

*Working primarily with high net worth individuals, the analyses usually indicate they already have sufficient capital to meet their lifestyle requirements so there’s no reason to worry or risk being overly aggressive in their*

asset allocation. This is especially important when the markets suffer a down year because even when portfolios lose value, clients can see their lifestyle needs have not been jeopardized. That's a completely different mindset from someone experiencing a down year and being paralyzed by fear and uncertainty. It's the difference between chasing performance and being a client's advocate. An advocate provides the support needed to guide clients through good times and bad.

*Mitchell: Can you expand on how being a coach and advocate changes the client relationship?*

Todd: Sure. Take typical annual reviews. Most are a recap of the year's portfolio performance: "Here's how much you gained or lost last year and here's how much money you have." It's like a business balance sheet report.

For our annual reviews, we create a complete personal profit and loss statement. It's an in-depth analysis of how our clients are progressing on their life course. We continually monitor our clients' net worth from day one, so we always have a running total available, a "financial health update" if you will, so our clients always know where they are in relation to their financial objectives. If you know how you are progressing through life and whether you should be concerned or not, it's a more encompassing and meaningful dimension than simply measuring your portfolio results. The underpinning is our steadfast belief that we must be advocates for our clients, guardians of their financial wellbeing. It provides a framework to help us keep a clear perspective on what's most important.

*Mitchell: That's a unique perspective. How does it hold up when the markets tank and a client has a significant portfolio loss?*

Todd: Good question. Let's say you're my client and your portfolio is down \$100,000 from last year. Everyone is talking about how bad things are and how much they've lost.

But I suggest before making a judgment, let's update all your information, including how much you need to cover expenses, your income sources, any lifestyle changes that have occurred, etc. We plug that info into our database and run the numbers. Let's say you had a \$500,000 surplus a year ago. Since your portfolio lost \$100,000 since, you probably assume your surplus has dropped to \$400,000. But that's not necessarily so because of how often, and how quickly, your lifestyle factors can change.

Let's assume we calculated you would need \$5,000 monthly income a year ago. However, you paid off some debt and now you only need \$4,500 monthly. Also, we projected a 4% inflation factor but it didn't rise that much, and your social security income turned out to be \$200 a month more than expected. Changes like these alter your income needs. So now when we analyze your numbers, we see your surplus actually shrank much less.

Often, clients who thought their surplus might have shrunk discover it actually grew because of various factors other than portfolio results. That kind of meaningful analysis contributes greatly to client advocacy because it goes far beyond evaluating data; it provides clarity and reassurance.

What's most important is that your financial plan is cumulative, combining how you live your life with how I help you manage your investments, taxes, retirement and estate factors. That's what I mean by measuring how you're doing versus reviewing your investments. In almost every instance, my clients discover their surplus did not change as much as they perceived. Our projections are based on the best information available at the time but can't always be spot-on. As we go forward, we monitor events and make assumption adjustments regarding investment performance, living costs, taxes, inflation and the rest, as necessary. Each year, we re-measure and readjust. Most critical is to measure from today forward. Even in the worst markets, we remain confident and optimistic because we recognize the opportunity to earn a higher rate of return coming out of the turbulence than going into it.

*Donald A. Todd is a registered principal offering securities through SagePoint Financial, member FINRA/SIPC.*

*Advisory services offered through Oregon Pacific Financial Advisors, Inc., a Registered Investment Advisor.*

(Part two of the interview will appear in our next issue.)

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