The Mitchell Report
Perspective from Leading Advisors

Putting the "Plan" back in Planning

Introduction

The ongoing economic malaise has delivered an unwelcome dose of reality to the financial community. A gaggle of managers and advisors once eager to share their financial brilliance with me have gone conspicuously silent.

They're not alone. Market analysts from some of Wall Street's biggest names are hiding under their desks, those who are still employed. So many apparently bright, highly educated people overlooked what should have been obvious to them: Nothing lasts forever. And yet, most seemed to believe it would.

One lesson to be learned from all of this is the critical importance of being proactive in financial planning. Sad to say, the term "financial planning" has come to connote little more than investment management. It may be time to abdicate the term altogether, given the fact that few financial plans provided much of a "plan" once markets headed south.

As we have learned the hard way, change is inevitable and it can be financially debilitating. Since we can't predict when it will happen, how can investors plan for the inevitable fluctuation? I've come to believe that perhaps the most important facet of any financial strategy is the ability to adapt as the changes occur.

Recently, I encountered an advisory firm that shares my conviction about the importance of portfolio adaptability to change. And, unlike the industry's suddenly silent majority, the firm's principals were eager to talk about the challenges facing investors and advisors in the new economic environment.

Maureen Verduyn and Peggy Lombardo are co-founders of The Financial Team, a financial advisory team based in Carlsbad, CA, just north of San Diego. The partners have provided planning and investment advice to mid-range investors through two decades and numerous market corrections. They recently introduced a concept called Adaptive ECOnomics. It's a multi-component process designed to proactively anticipate and react to economic and financial challenges.

I was intrigued.

The Interview

Mitchell: I understand you've developed a strategy called Adaptive ECOnomics that addresses the need for flexibility in financial planning and portfolio management. Tell me about it.

Financial Team: The recent economic upheaval has exposed traditional financial planning's susceptibility to sudden market shifts. For most people, financial planning has come to mean investment management. But when dramatic or even subtle changes occur in the markets or in someone's personal circumstances, an effective plan must have the capacity to react to those changes so the person's investment capital and other critical assets are protected. Conventional financial planning rarely provides that kind of flexibility and protection.

We created the *Adaptive ECOnomics* model as a more effective response to economic changes. It changes how people can plan for the future. Structurally, it's a personalized, multi-component financial directive that can adapt to changes. At the same time, it promotes decision-making clarity and helps our clients sustain their vision for the future.

Mitchell: Can you explain what you mean by "multi-component"?

Financial Team: Sure. *Adaptive ECOnomics* consists of nine elements that represent the principal financial considerations each of us faces as we progress through life. These elements are interrelated. Each requires ongoing evaluation and fine-tuning, and each interacts with and impacts the decisions made regarding the other components.

But the role of each component can vary greatly for different people, depending on their age, financial situation, interests, goals, retirement plans, and so forth. Not everyone needs help with every component. That's one of the advantages of the system: we can offer help only where needed or system-wide. Someone may need tax and estate planning help but not college planning. Those who prefer to personally manage their paper assets may need professional help crafting an overall investment strategy or managing their real estate portfolio.

Each person has a unique set of circumstances and needs. The single most important aspect of the system is that, as the name implies, it is adaptive. It can be used to manage one component or all nine[i], and it can respond promptly to change. Given what we have witnessed in recent times, the ability to adjust to the inevitable financial and personal changes that occur in our lives is vital. If a financial plan can't help people do that, why have a plan at all?

Mitchell: So the system is really sort of a blueprint for making informed financial decisions in an environment subject to certain change?

Financial Team: That's a way to put it succinctly.

You might think of it as an architect's plan for a home. If the owners decide they need an extra bedroom or a larger kitchen, those changes will affect how the adjoining rooms are laid out and perhaps the plumbing and electrical as well. Just as important is the flexibility to accommodate future changes. The family may someday need to convert or add space for more children, an aging parent, a greenhouse, sewing room, wine cellar or larger garage.

The same approach holds true for a family's lifelong financial plans. They need a financial architect with experience and foresight to create a design that can adjust and accommodate future changes. As the design's draftsman and construction manager, we welcome that responsibility.

(Part II of the interview with The Financial Team appears in our next issue.)

Michael Mitchell is an independent financial writer based in San Diego.

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[i] The Adaptive Economics System consists of 9 financial elements:

1) Investment Portfolios
2) Tax Planning and Preparation
3) Risk Management (i.e. insurance - Life, Health, Disability, Long Term Care, Homeowners, Auto, Personal Liability)
4) Real Estate Portfolio and Mortgages
5) Retirement Planning
6) Estate Planning
7) Cash Flow Management
8) College Planning
9) Behaviors – Philosophy - Personality - Relationship with Money