

Was That Risk I Just Saw?

The Pain Could Have Been Prevented With Wealthcare

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Are We Dying of Thirst?***What Happens if the Drought Continues?******Are We Healthy Enough to Weather a Continued Drought?******Have We Checked the Weather Forecast?***

Over the last several months I have spoken to a number of reporters, financial advisors, and market prognosticators about how this devastating bear market has affected investors and their financial advisors. To my surprise, the media has been remarkably quiet about the pain this market has produced, in general choosing to chant the “we are long term investors” mantra over their usual approach of highlighting the negative in order to sell papers. Many financial advisors have joined the media’s chant and have been distributing the “expert” advice of market prognosticators and economists. They have dusted off their old charts about how long bear markets last and how important it is to “be in” when the market turns.

My advisor, like many other financial advisors, sent me a letter showing me that the average bear market of this magnitude lasts twelve months. I believe she was trying to comfort me, giving me hope that on average, the pain should nearly be over. But all I could think about was the 50% chance of the market continuing to decline. Coin flips are not a very good way to plan your financial future, I thought to myself.

“It is important to stay invested,” the letter from her expert said, “since by the time we realize we hit a market bottom we’ve already missed much of the rebound.” The herd has moved from “get in” to “stay in,” but is still none-the-less a herd, and is continuing to ignore individual circumstances and goals.

We are now experiencing the opposite side of the same herd mentality coin that led us to the euphoric returns that now seem like an eternity ago. Two years ago we “discovered” we were in a “new economy” where companies no longer had to produce revenues, yet alone profits. Now, having “discovered” that corporate profits do indeed still count in this “new economy,” the herd has gathered at the waterhole waiting for it to be filled by the refreshing rain of a market rebound. Few investors or their advisors are planning on a drought, just as few had planned on the waterhole running dry in the first place. There is a risk that the rains of rebounding markets will not come before we have financially died of thirst.

When a waterhole runs dry in the wild and the drought continues, do all the beasts instantly die of thirst at the same moment? Or do some make it until the rains come? Perhaps some are healthier or stronger and better prepared. Some might make it by abandoning waiting for the rains and search for other courses of survival, finding life-giving moisture in other places or other ways. Those that do make it through the drought do so not because the herd decided to wait, but instead because they were better prepared or took a different course than the beasts that died in the early days of the drought. This is dependent on their unique situation. Is your situation different than your advisor’s herd of other clients? If so, shouldn’t your plan for survival be different? Doesn’t “stay in” advice seem a bit impersonal - ignoring your personal financial health?

This is why you need a financial physician (advisor) that knows how to practice what we call “Wealthcare.” If you know in retrospect that it would have been wiser a year ago to look at the weather forecast in the area of your waterhole, do you believe it is wise to continue to ignore the chances of an ongoing drought? Ignorance may be bliss. However, it is still ignorant.

There are two things about this bear market that really have been bothering me. First and foremost is the devastation it has had on the lives of so many investors. I know the media hasn’t been highlighting this, but I have heard it from real financial physicians (advisors) who are helping their patients (clients) through what unfortunately now requires emergency financial treatments.

I have heard stories about a retired couple that only a year ago felt financially secure, had a beautiful home in a country club community and were enjoying their golden years in comfort having toiled their entire lives to finally enjoy themselves and each other. Their home is now for sale and the summer trip to Europe with their grandchildren has been put on indefinite hold.

I've heard about widows who thought they were financially secure but are now being forced into reducing their planned retirement income by 30%-50% so they could survive if they live as long as their mother.

I've heard of workaholic executives who have been putting off spending time with their family for their entire professional careers and planning to retire early, but are now realizing that they have several more years of work ahead of them.

The personal pain of a failed plan is not only financially devastating, but also emotionally devastating. I can't sleep at night anymore thinking about these investors. Imagine what it must feel like to have the hopes and dreams of your entire life shattered. It is very sad. I've spoken to financial advisors that are feeling the same grief for their clients. They want to learn how to become a practicing "Wealthcare" physician. The financial services industry is SUPPOSED to exist to help people meet their goals, permitting them to live their life as they had planned. The industry has failed for these investors. The sorrow then turns to anger.

THERE IS NO REASON THESE SITUATIONS HAD TO HAPPEN.

We can blame "the market." We can blame economists. We can blame market prognosticators. All of these are nothing more than convenient scapegoats for our own ignorance. For the do-it-yourself investors that have no one to blame but themselves, I hope they have learned their lesson and are seeking emergency treatments from a financial physician. I cannot let myself sympathize for those who try to take something as complex as finances and continue to allow themselves to bleed to death with "home" remedies. There is an old Arab proverb that says...

"He who knows not, and knows not he knows not, is a fool...shun him."

The do-it-yourself investors and their "cyber advisors" don't know what they don't know. Ignorance is bliss...until it becomes pain.

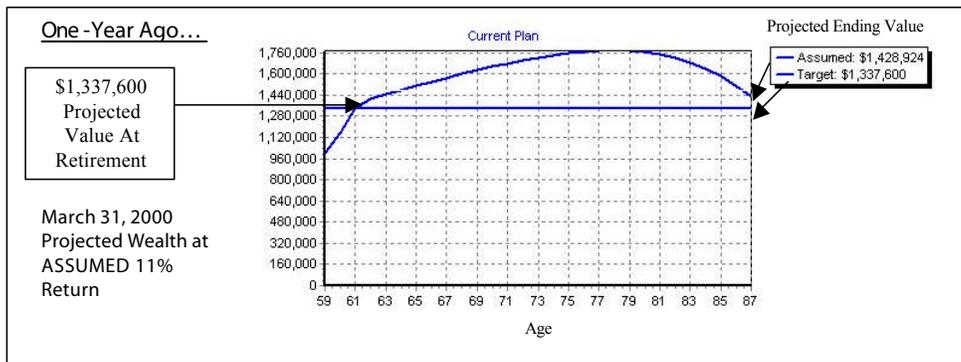
What disturbs me the most about the examples of real people whose lives have been shattered (even though they did everything "right") was that **IT DID NOT HAVE TO HAPPEN.**

- In EACH case, the potential for this pain was identifiable years in advance, long before "irrational exuberance." **IT COULD HAVE BEEN PLANNED FOR AND THEY WOULD HAVE BEEN PREPARED.**
- EACH of these investors had a financial advisor (but not a financial physician) that was a specially trained professional. **THEY COULD HAVE FOUND AN ADVISOR THAT HAD THE SKILLS AND DIAGNOSTIC TOOLS TO ANTICIPATE AND THEREBY PREVENT THE PAIN.**
- EACH of them had identified their risk tolerance and had optimized their asset allocation. **WHAT GOOD IS A RISK TOLERANCE IF YOU CANNOT CONTROL THE MARKETS?**
- EACH of them had done a financial plan which, when dusted off two or three years later, now looks pretty silly. **A PLAN BASED ON ERRONEOUS ASSUMPTIONS MAKE AN ASSUMPTION OUT OF YOU AND ME.**

· EACH of them received quarterly performance reports to monitor how their portfolios had performed relative to market indices or other investors. **YOU CANNOT CHANGE WHAT HAPPENED, SO PREPARE FOR WHAT MAY HAPPEN. YOUR ACCOUNT PERFORMANCE HAS ALREADY HAPPENED.**

· EACH of them followed the rules of conventional wisdom. **THIS ENDED UP BEING VERY UNWISE.**

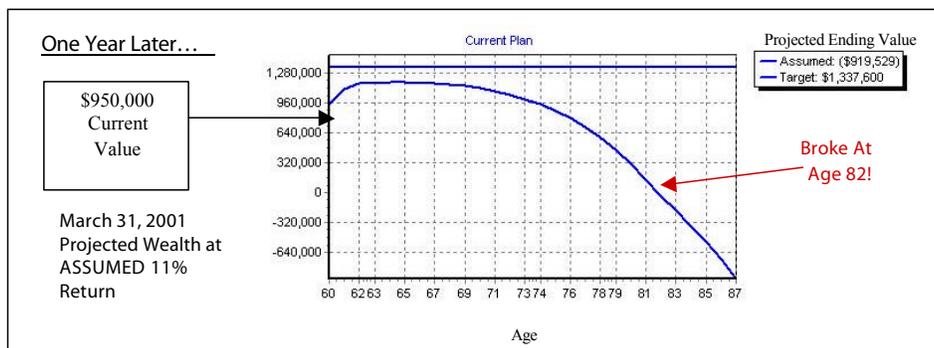
Think about our workaholic executive that was nearing retirement. Last year he was only two years from being able to finally enjoy his family, according to his erroneous plan. Last year, at age 59, his advisor projected his retirement plan based on a “conservative” 11% return assumption. Next year, at age 61, when he planned to retire, he was supposed to have \$1,337,600 and he would then begin to withdraw \$74,000 of retirement income. He didn’t want to spend any principal, and his retirement plan projection looked like this:



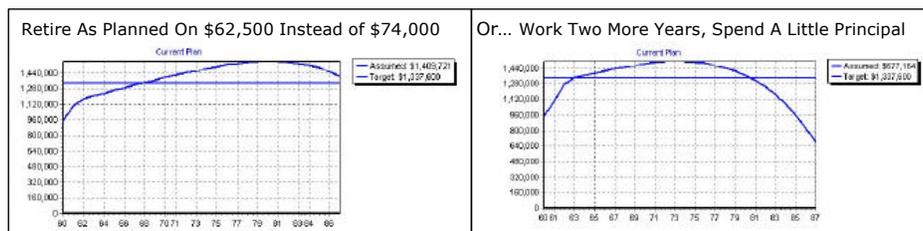
Last year (based on this “plan”) he skipped the family vacation and took on some additional projects at work. After all, he was only a couple years away from retirement and he would have plenty of time to spend with his family then.

One Year Later...

Over the last year, the market’s performance wasn’t anywhere near 11%. In fact, his portfolio is now worth \$950,000, even after his \$50,000 additional deferred compensation contribution. He is supposed to be one year away from retirement. He and his family are looking forward to finally being able to spend time together. His financial advisor (not a financial physician that practices wealth care) did the “prudent” thing of updating his retirement plan. It showed that the recent market declines have caused some problems in his plan. According to his ASSUMPTIONS, he will now go broke at age 82!



This is an obvious problem, but his financial advisor has already worked out some alternative solutions. His financial advisor (not financial physician) figured out two choices. He can retire next year if he can get by on \$62,500 of retirement income instead of the \$74,000 he planned on OR he can work two more years instead of just one more if he is willing to spend a little principal in his later years. These projections looked like this:



If I were this client, I would be fuming. I hired this advisor to plan for my financial future. Based on his advice, I continued to sacrifice my family time “knowing I had a plan” in which I would be able to retire soon. He was supposed to be an “expert” that would be able to guide me so I could live my life according to a long-term plan. Now, just one year later, I feel like I’m being forced into either breaking my commitment to my family or lowering my standard of living. Some choice! I deserve an answer to some questions. My advisor’s answers clearly show that he isn’t a financial physician that knows how to practice “Wealthcare.”

Question: How did this happen? I thought I hired you to create a long-term plan!

Answer: We did create a long-term plan. In the short term though, markets can go up or down. Unfortunately we’ve had some bad luck with this recent bear market.

Question: Bad Luck! You mean you were leaving my financial future to CHANCE?

Answer: I wouldn’t put it that way. On average, we experience a bear market of this magnitude only once every ten or so years. No one knew it was going to happen this year.

Question: Did you know there was a chance it was going to happen?

Answer: Of course I did. It’s not my fault the market moved against you.

Question: Let me get this straight. You knew there was a chance this was going to happen... correct?

Answer: Yes, I knew there was a chance of a bear market.

Question: You knew there was a chance, but the plan I hired you to build didn’t consider this chance?

Answer: Well, that’s not entirely true. We assumed a long-term average return. The market doesn’t go straight up every year. The return assumption we used is the average return, which assumes we will average the net of some up years and some down years.

Question: So YOU KNEW that the market would have up years and down years?

Answer: Yes...of course.

Question: But my plan assumed that my portfolio would go straight up every year, even though you just said the market doesn't go straight up every year?

Answer: Well, yes...sort of...at least on average.

Question: What are the chances of the market going up exactly the same amount each year?

Answer: Just about zero.

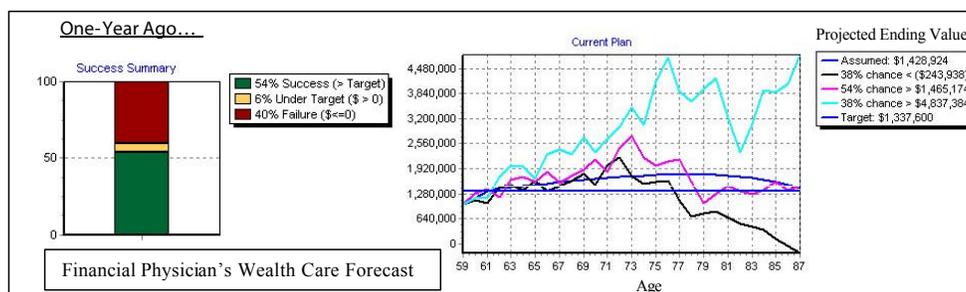
Question: Let me see if I understand this correctly:

- 1) We designed a long-term plan that had nearly a zero chance of going according to plan.
- 2) We knew there was a chance of the market going down, but we didn't plan on it.

(Attention: compliance departments, CFP Board, IMCA, ICIMC, AIMR, AICPA, NAPFA, SEC and NASD and any others that set standards for best practices in the industry...are you training your members to provide full disclosure of their erroneous assumptions? This sort of conversation is happening with your members EVERY day. When will you adopt a policy that encourages members to avoid showing projections that have nearly no chance of happening? Please do not wait until the attorneys of clients of your members ask these questions in arbitration.)

Why We Need Wealth Care and Financial Physicians

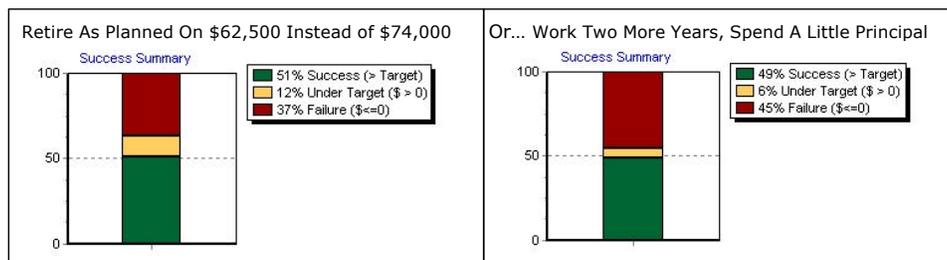
Our workaholic executive's plan was designed for a high chance of failure from the beginning. Last year, if instead of a financial advisor that practiced "financial planning" or "investment consulting" this investor had a financial physician that practiced Wealthcare, his plan would have been much more realistically designed. Financial physicians contemplate the reality that the market goes both up and down in the short term. They plan IN ADVANCE for the impact of short-term market movements on long term plans. A trained financial physician would have shown him that in all likelihood the changes he did not expect, but now feels forced to accept, were not only possible but instead were highly probable. Is that not what a long-term plan should contemplate?



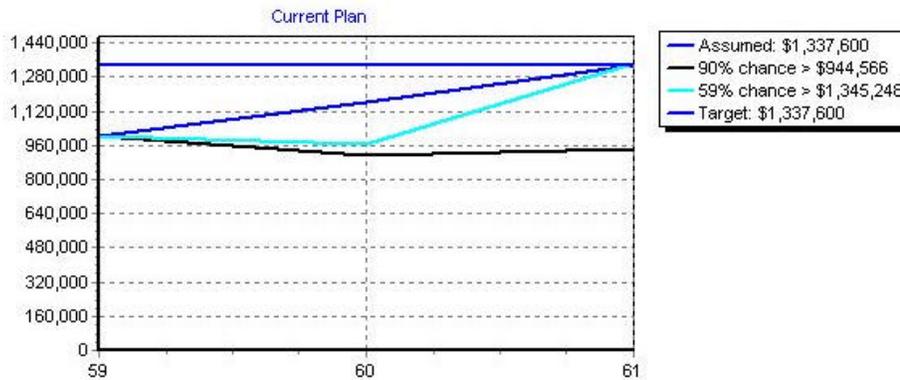
Did the investor deserve to know this information before he accepted more responsibility at work? Did he deserve to know this before he cancelled the family vacation? Would he have made the commitment to his family that he will be retiring very soon if he knew that by doing so he would have a 4 in 10 chance of running out of money in retirement? Did his advisor have any obligation to show him this information? Did his advisor mislead him into a false sense of security? Did he pay the advisor a fee to design a plan that left him in this position? The difference between a financial physician and a financial planner or investment consultant is that financial physicians (like medical physicians) contemplate and plan for the impacts to your wealth (health) based on ALL contributing risk factors. Doctors don't tell you that it is alright to smoke, eat lots of fatty foods, and drink heavily because on average you will still live for many

more years. They don't monitor your cholesterol and blood pressure to tell you what happened to your health (performance reports). They do it to identify your current health so they can advise you on what you need to do going forward to maintain or improve your health (wealth). If physicians practiced health care as many advisors practice "Wealthcare," we would be visiting doctors after we are already DEAD!

What about the so-called "solutions" the advisor came up with a year later? The problem with these "solutions" was that they were no better than his original plan. Like the original plan a year ago, following his advisor's advice left him with another probable "financial heart attack" like he just experienced. A financial physician would have shown him that these "solutions" weren't solutions at all, but instead were just setting him up for more disappointment in the future. The weather forecast for these "waterholes" still shows a high risk of drought.



Was any of this so-called "advice" worth much? Did this busy workaholic executive hire his advisor to design a plan that had all the confidence of a coin toss? Was it realistic to tell this investor last year that his portfolio would increase by 11% for the next two years and ignore the chances of it declining to its current value of \$950,000? Had this investor had a "Wealthcare" specialist last year...before the market correction...he would have known that while he had a 90% chance of having more than his current \$950,000 today (remember that 1 in 10 chance of a bear market the advisor knew about but did not plan for?), there was only a 59% chance of it being worth near what was being projected.



Last year, his financial physician could have shown him that it was going to take both a reduction in retirement income and a later retirement age if he wanted to have a high confidence level in achieving his goals. This isn't the greatest news to hear. It is the realistic truth that you can truly plan on. If you want to be lulled into a false sense of security, then hire a financial advisor or a cyber advisor instead of a financial physician. Who knows, the coin toss you are living your life by may just come up "heads...you win." Lucky you! If it comes up "tails...you lose" you can just change your life. That may not be much of a plan, but it at least feels like you did the "right" thing. Is it really so bad to leave your financial future to chance?

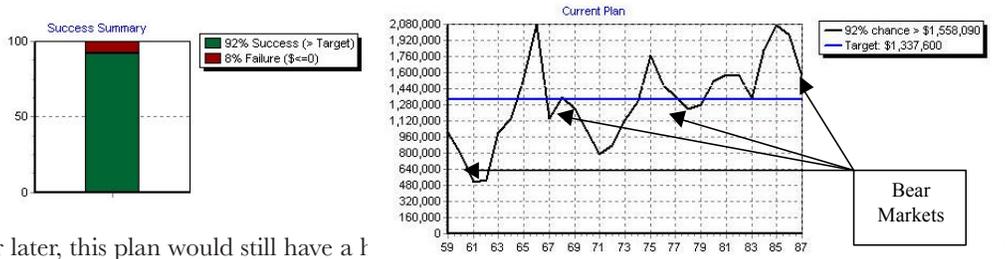
By the same token, you can hire a witch doctor that tells you it is fine to smoke , drink, and eat fatty foods. Who knows, you may come up “heads...you live.”

Turning Investment Chances Into Investment Choices

If you feel that your financial health is nearly as important as your physical health, then you might reconsider whether leaving your financial future to chance is very wise. You may want to consider hiring a financial physician that practices wealth care.

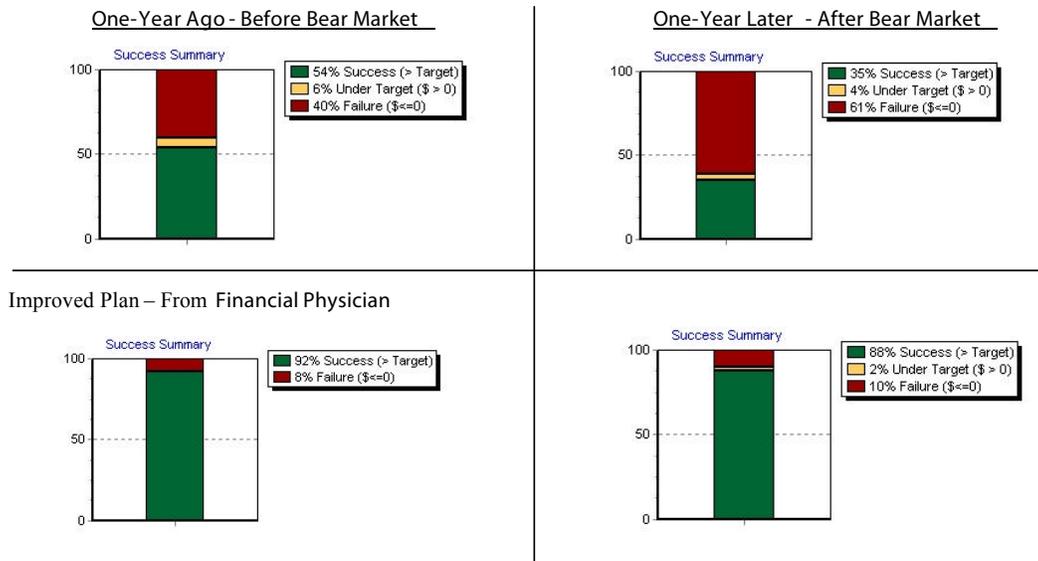
Remember the decisions that our workaholic executive made last year based on a plan that left his future to chance? He took on more responsibility at work. He cancelled his family vacation. He promised his family he would soon retire.

If he had a financial physician, he would not have likely made those decisions or promises. To achieve a high confidence level BEFORE the market correction, his financial physician would have more realistically shown him that he needed not only to plan on \$62,500 of retirement income, but he also should plan on working through age 64. He would have designed a plan that would work even if there were bear markets and the market went both up and down, as we know it does.



A year later, this plan would still have a 100% chance of success that markets do not go straight up every year as the original plan contemplated. Imagine going through this bear market and knowing you do not have to change your plans. Look at the comparison below. Which would you choose?

Original Plan – Financial or “Cyber Advisor”



Many people assume that Financeware is just another financial planning tool. This bothers me because it is the equivalent of saying that John Hopkins University is about MRI machines. Physicians need MRI machines, just like financial physicians need our diagnostic tools. But, just as John Hopkins teaches medical students to become highly skilled physicians, we are about teaching financial advisors to become *financial physicians*. Our tools are needed to provide "Wealthcare" just as MRIs are needed to provide health care.

Our Chartered Personal Financial Auditor (CPFA) program is designed to train financial advisors to become financial physicians. This program is our equivalent to the real life training physicians receive after they go to medical school but are not yet out of residency. We require financial professionals enrolled in the program (prior to completion) to already have completed one of the industry certification programs...our equivalent of medical school. In the program, just like soon-to-be physicians, they learn how to apply "Wealthcare" in real life case studies.

We are traveling the country with a series of "Wealthcare" training seminars that not only provide continuing education credit for many of the industry's professional certifications, but also introduce advisors to the differences between financial planning, investment consulting, and "Wealthcare." (Information about the dates and locations can be found at www.financeware.com/homepage.asp?showsnippet=trainng-conferences.)

We have recently launched a program for institutions of higher learning in which we are granting millions of dollars of free access to our system. Educators in the field of finance can give their students free hands-on, practical experience in applying "Wealthcare" with our diagnostic tools. They will be able to go beyond the academic teaching of Modern Portfolio Theory and better prepare their students for real life practical application of Modern Portfolio Reality. More information about this program is available by emailing us at education@financeware.com.

There was no reason this bear market had to devastate so many investors' hopes and dreams. Like the economists and market prognosticators, I don't know how long the financial drought will last or when the rains of a market rebound will occur.

I do know that through the practical application of Wealthcare, investors could have been financially healthier than they currently are. I know they would have been more likely to withstand a financial drought. I know that the pain, the fear, and the reality of market ups and downs could have been anticipated and planned for. I know that instead of leaving their financial future to chance, they could have turned it into choice. Our diagnostic tools do make it possible to identify this financial disease far in advance. The tool cannot discover the disease without the physician. The best course of treatment requires skill, knowledge and wisdom. This is what Financeware is about.

We are about a process that enables financial physicians to help their patients live their life as they planned. This is what financial advice is SUPPOSED to be about. Without it, you are living your life on the flip of a coin. Do you really want to bet your financial future on heads or tails?