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IN PARTNERSHIP WITH KOVITZ

9 Questions Your Financial Plan Should Answer

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John Buckingham
Principal
Portfolio Manager

Jason R. Clark, CFA
Principal
Portfolio Manager

Christopher Quigley, CFA
Senior Research
Analyst

Zack Tart
Portfolio & Research
Associate

KOVITZ.COM

THEPRUDENTSPECULATOR.COM

KEY TAKEAWAYS

- **The Bottom Line**: The most important thing our planning should do is give clients information to make informed spending and saving decisions.
- **Keeping on the Path**: We believe a detailed, thoughtful plan provides a foundation upon which we partner with clients on the path to achieving their financial goals.
- **9 Key Questions**: Financial plans can be as clear as mud. We've compiled nine questions we think you should have answered to add clarity to your plan.

Financial planning is the foundation for successful wealth creation. It is an involved process that begins with establishing goals and objectives, which mix short- and long-term priorities like purchasing a home, paying for education and saving for retirement. It also helps to clarify cash flow needs, employee and retirement benefits, estate plans and tax-related issues.

PLANNING FOR A PURPOSE

At the outset of the planning process and prior to our initial planning meeting, we'll determine where you stand relative to achieving your current financial goals. We'll inquire about remedial steps that can be taken to change course, such as saving more, working longer and spending less, and our analysis will determine whether any changes are necessary to improve the chances of success. If the goal of capital sufficiency (not running out of money in retirement) seems likely to be achieved with a high degree of certainty, then we'll move on to tackle ancillary goals.

It'd be easy to stop at this point, consider retirement planning to be on track and wrap up. However, individual situations vary meaningfully and those personalizations are not to be ignored. Therefore, we consider the high-level work to be a simple overview, and we use those findings as a springboard to perform a deep dive on one's financial life. This additional level of analysis allows us to provide better advice particularly as it relates to things to keep in mind, highlighting opportunities to exploit or potholes to steer around.

DETAILS MATTER TO ACHIEVE POSITIVE OUTCOMES

Next, clients meet with their Wealth Advisor and dedicated Financial Planner to discuss their personalized plan. Assumptions, such as an ideal retirement age and expected investment returns are laid out, followed by a set of alternative cases, which could include a secondary retirement date or factor in a scholarship for educational expenses. Financial needs like automobile purchases or health care expense estimates are spelled out, as is a summary of assets. While holdings like a bank account or a home come to mind, the summary of assets may include social security projections, life insurance proceeds and expected inheritances.

Together, we review the current asset allocation and reaffirm rate of return expectations, preferring to use conservative return projections such that targets in the 'worst' scenario are comfortably achievable and there is plenty of upside opportunity through a combination of better-than-expected investment returns, lower spending and additional income. A rate of 4% is our baseline withdrawal rate. We note that the sustainable portfolio withdrawal rate is the rate you'd fetch if you happen to be so unlucky that you retired at precisely the worst moment.

We must emphasize here again that circumstances will inevitably change. Therefore, it is vital to revisit our analysis periodically (perhaps every three years) or as life events warrant, such that we can incorporate new data to ensure clients remain on track to achieve –and exceed– their goals.

CALCULATION METHODOLOGY

Inputs entered, assumptions set and goals penciled in, the next step is to review projected outcomes. Our complex and capable financial planning software uses Monte Carlo trials, iterating 1,000 times through ordinary and extraordinary market environments, boiling down to a single probability of success score. A Monte Carlo simulation is a test for sequencing risk, or the risk that poor returns at the outset of a plan will hinder a client's ability to achieve their financial goals down the line. Even though there's no magic score that promises success, we do like to see figures above 80%, meaning that financial results for 800 of 1,000 simulations achieved a client's stated goals.

After a discussion about the results of the Monte Carlo simulation and a review of potential outcomes, Wealth Advisors and their clients partner to configure their asset allocation and select investments that are expected to best suit their goals, risk tolerance and individual circumstances.

9 QUESTIONS YOUR FINANCIAL PLAN SHOULD ANSWER

Our wealth management process begins with the aforementioned review and analysis of your individual financial situation, including cash flow needs, employee and retirement benefits, estate plans and tax-related issues. We believe the detailed, thoughtful process is worth the effort, providing a foundation upon which we partner with clients on the path to achieving their financial goals. We are frequently asked what questions a financial planner should be answering for their respective clients, and we've compiled a list of queries one may find valuable to answer during the planning process.

1. **What is my financial plan overlooking or not considering?** There are many moving parts in our financial lives and it can be difficult to capture them all at once, let alone figure out how they should be working together. A quality financial plan lays everything out in one place, which is helpful in figuring out if there are any missing pieces or areas requiring focus.

2. **What is the best way to protect my family and myself?** A detailed financial plan can help highlight areas that deserve extra attention, such as emergency preparation and insurance. We frequently are asked "Do I have enough cash to cover at least six to twelve month's essential living expenses?" and "Do I have the sufficient health insurance coverage?"

3. **How can I plan for taxes now and in retirement?** A dollar saved is a dollar earned, as they say. A financial plan considers your current and future tax situation and optimizes activity to ensure you keep what's yours in your pocket.

4. **When should I take my government benefits?** This can be a complicated decision based on a wide array of factors, including income needs, health and life expectancy. A financial plan can consider several different outcomes to help inform the best course of action.

5. **How much can I spend and not outlive my money? What is my optimum withdrawal rate?** Everyone is different. A personalized financial plan seeks to answer both questions in a way that is unique to your situation. Many folks focus on having 'enough' to retire, but there are also situations where it makes sense to lower risk because the glide-path has goals and objectives covered.

6. **What minimum return do I need to reach my long-term financial goals and when should I change my allocation?** Knowing this number is great for peace of mind, though we note that it can change. Should you need to earn 7% on your investments and you're primarily invested in cash earning 4%, then you will not hit your financial goals. Similarly, if you are earning 10% and you only need 7%, then it may make sense to lower risk and improve the probability of success.

7. **Will I have the income I want in retirement, or will I be able to live the lifestyle I want in retirement?** We frequently hear that a 4% withdrawal rate on a portfolio is ideal. Empirically it has been the case, anyway. You'll earn $20,000 of income from a $500,000 portfolio. We appreciate that doesn't sound like a lot, and there are ways to augment one's finances to improve the outcomes.

8. **How am I doing so far? How frequently should my plan be updated?** A financial plan is a living document and should be updated periodically. There's no hard-and-fast rule on the periodicity of those updates, but we think a plan should be updated anytime there is a life event (retirement, a new major expense or goal, inheritance, et cetera).

9. **Do I need to make any major lifestyle changes to help me reach my long-term financial goals?** The answer to this question depends on individual circumstances. Some folks need no changes or can even spend a little more, while others need to work longer or belt-tighten to achieve their goals.

PREPARING FOR THE FUTURE

We believe financial planning is one of the most important steps on the path to financial success (and maintaining it!). It is the basis for much of our Wealth Management work and we work tirelessly to ensure personalized client allocations align to meet –and exceed– individual goals and targets. Our experience is that a financial plan adds value by acting as a steady hand, and our careful attention to detail, including seemingly strange questions like "How much do you expect to spend on a car? How frequently will those purchases occur?" serves two purposes. The first is functional. We actually bake those answers into your financial plan. The more precise and accurate the answers, the higher the quality of the subsequent analysis. The second is emotional. We want to know details of your annuities, insurance policies, asset purchase/sale timing and risk perception to offer a sense of relief that someone is looking at the whole picture.

OUR ASK

For more than 46 years, we have collaborated with our clients as they navigate the path to achieve their financial goals. We are committed to keeping your objectives, concerns and attitude about investing at the heart of your plan. If you're ready to experience our personalized investment approach and exceptional client service, contact Jason R. Clark, CFA at 949.424.1013 or jclark@kovitz.com.

For additional information about subscribing to the *The Prudent Speculator* newsletter, please call Phil Edwards at 800.258.7786 or email pedwards@kovitz.com.

For more details about our wealth management and asset management services, kindly reach out to:

Jason R. Clark, CFA

Principal, Portfolio Manager

949.424.1013

jclark@kovitz.com

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The description of products, services, and performance results contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

All returns are geometric average unless otherwise stated. The geometric average is calculated using the mean of a set of products that takes into account the effects of compounding.

The Standard & Poor's 500 index (S&P 500) is a broad stock market index based on the market capitalizations of the largest 500 companies listed in the U.S. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index. The S&P 500 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Value Index.

The factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. The aggregate Value and Growth portfolios are monthly averages of the two returns.

Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index.

The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of Securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices. Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. It includes both emerging and developed world markets. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ US Real Estate Index represents REITs & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones U.S. Index, which covers 95% of U.S. securities based on float-adjusted market capitalization. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

From 1927 to present, we utilized the dividend-weighted portfolio data from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 30% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers).

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