LEGACY WEALTH MANAGEMENT | Right by you.

Buying Into the Planning Process

In our Q4 2024 commentary we said, "I don't know where the market is going from here, but I promise it's not likely to be boring." Well, three months later the market has delivered. Markets have rallied nicely, declined quickly, and sometimes simply moved sideways. The volatility of the markets seems to be about as high as the fearmongering in the news cycle. With all the seemingly unending chaos, how can we invest and manage a portfolio moving forward?

The answer we always use comes back to financial planning, but specifically in this commentary I want to talk about buy-in. Why is it important? In all aspects of life buy-in matters. It has become almost routine to see buy-in lead to success whether it's the sports teams who buy into what the coach is trying to accomplish, the businesses with the best employee engagement, or the relationships in your life. The more committed one is to an idea, process, or relationship, the more successful those things are likely to become.

There are three pillars to a successful financial plan: investment, planning, and buy-in.

Investment: This is the most talked about piece of financial planning because it is the largest unknown. It is human nature to try to understand and control things we feel are out of our control. We want to think we can predict what happens next. Study after study tells us that we can't and the results of trying can be devasting to a long-term plan. However, by staying the course and adhering to a risk tolerance that you can stick to in tough times, you can get investment returns that allow your plan to succeed, assuming the other two pillars are well built.

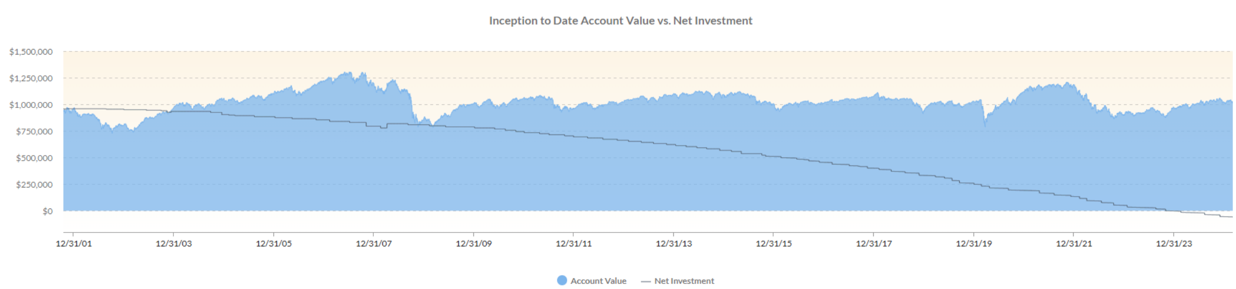
Planning: At Legacy, this is our secret sauce. We want to get the big picture right. We want to review your estate documents, tax returns, insurance, education planning, mortgages, car loans, student loans, credit cards, stock options, and anything else that has to do with your financial life. The more we know, the better we can advise. For example, we don't want you to continue contributing to a Roth IRA every month if you are simultaneously building up credit card debt at a 20% plus interest rate. Creating a financial plan to use as a roadmap to your goals, to the things important to you, is something completely in your control that will have more impact on your future than short-term moves in the financial markets.

Buy in: This may be the hardest pillar in the planning process. Sometimes, clients are not on the right track and the steps necessary to get to a successful outcome can be hard. It's hard to create the habits of saving money which might entail spending less. It's hard to forgo something now to buy flexibility and freedom later. It's not exciting to spend money on insurance, hoping to never have to use it. However, we consistently see that the clients who buy into Legacy's planning process and investment approach experience successful plans. Keep in mind that any recommendations made by Legacy are based on what we believe is in your best interest. We have no products to sell and gain no financial incentive from recommending certain insurance policies, estate documents, or debt payoff strategies.

The graph below is one of my favorite capital flows charts from a real client of Legacy. This chart is included with every quarterly report you receive from Legacy and becomes more valuable the longer we work together. Early on, the information gained from this chart is minimal, but over 24 years the information is very useful, as you can see.

For those unfamiliar with this chart, the dark line that trends downward on the page is the "Net Investment" line. Net investment means dollars put into or taken out of the account. If you add money, the Net Investment line goes up; if you withdraw money, the Net Investment line goes down. The blue background area is the value of the account. That means this client that started with us in 2001 started with just under $1 million dollars. Their start with Legacy coincided with their retirement so they immediately began living off the portfolio and taking monthly distributions, causing the Net Investment line to steadily decrease. As you can see, the Net Investment line today is around NEGATIVE $50,000. The portfolio value? Over $1million (higher than when the client started).

Did the client get lucky? Did they pick the right time to start investing? Did they time the market and avoid some of the corrections? No, no, and no. The client started investing when they got to Legacy and set up a financial plan. The timing was not ideal. Starting amid the tech bubble, you can see the account value dipped well below the Net Investment line for the first 2-3 years of the relationship. The client trusted the plan and saw improvement as we went through the mid 2000's. Then the Great Recession of 2008 hit, and the account took a significant hit as you can see. After the client initially started in 2001, they were 7-8 years into the relationship at the bottom of the financial crisis and the portfolio returns were essentially flat after experiencing two major shocks in less than a decade. Again, the client trusted the planning process and 24 years later, you see the results. They have withdrawn more money than they ever invested, and they still have more money than when they started. This is an ideal outcome when clients buy into a financial plan and stay the course through all the challenging ups and downs.



Clients who buy into the relationship can weather downturns like the one mentioned above without too much alarm because they understand we plan for periods like the tech bubble, the financial crisis, and COVID. We don't know what the next version of those events will be, but we know something will come around that will spook the markets and cause a lot of economic uncertainty, but if we have all three pillars to a successful plan in place, you will likely sleep easier at night during the next market decline than you did before you had a plan that you truly bought into.

Disclaimer: Capital flows chart is different for all clients and will be impacted by all the following: timing of contributions/withdrawals, withdrawal rate, contribution rate, market movement, rate of investment return, risk tolerance, order and magnitude of contributions and withdrawals, interest rates, investment holdings, and others. Not every client will have the same outcomes.