

When More Is **Not** Better

Investors today have access to more knowledge and data than at any other time in history. But when it comes to your investments, sometimes knowledge can be a dangerous thing. To be successful in the long run, you need the wisdom experience brings.

America is a nation of do-it-yourselfers. You can find information on how to do everything from home improvement to estate planning to book publishing yourself. We pride ourselves on our independence and our ability to tackle whatever comes our way, and the Internet makes it easy to find information to help us along the way.

The do-it-yourself approach may work fine for some projects — such as changing the washer on your bathroom faucet or helping your daughter buy a bond with her graduation money. But when it comes to developing an investment strategy for achieving your long-term goals, you're better off working with a professional. While the internet has given investors access to instant stock quotes and millions of web sites providing investment advice, this is a situation where access to more information does not necessarily bring you financial success.

"It becomes even more important to have an objective set of eyes today, because now we all have access to stock quotes and financial research instantaneously," says Rudy DePorter, CFP® a senior vice president in Northern Trust's Wealth Strategies Group. "But the important questions still remain: 'So what? What does it all really mean? And more importantly, what does it mean to me?'"

Finding the Right Team

To answer these questions effectively, you need to work with an experienced team of advisors — including your accountant, attorney, investment advisor, insurance agent and banker — who can help you sift through the wealth of information available and determine what makes sense in your situation. Their experience and understanding of the complex legal and financial strategies available today can help you properly navigate through the shifting financial markets and provide you with the support and direction to get you where you want to go, typically in far less time than it would take you to do it on your own.

A professional can help you make sense of the barrage of investing information and provide the discipline needed to stick with your plan. Without this discipline, you may find yourself making many unplanned trades, which can undermine your portfolio's performance. In fact, one study showed that investors who made the most trades during a year earned 36% less than the market average.*

An experienced professional can evaluate new research, tax law changes and opportunities to focus on what is relevant to

* "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," by Brad M. Barber and Terrance Odean, *The Journal of Finance*, Vol. LV, No. 2, April 2000. Of 66,465 households with accounts at a large discount broker during 1991 to 1996, those that traded most earned an annual return of 11.4 percent, while the market returned 17.9 percent.



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Five Things You Should Discuss With Your Investment Advisor

In order to provide you with the best possible recommendations with respect to your overall financial picture, your investment advisor needs to know many things — even about areas in which he or she may not be able to provide advice or services. Often, these seemingly unrelated questions could have a bearing on your overall financial picture. With that in mind, here are five things you should be sure to discuss with your investment advisor:

- 1. Cash flow needs.** How much do you like to keep on hand for emergencies and peace of mind? Are you planning to make a major purchase in the near future? Knowing when you would like to make the purchase and how much money you will need from your portfolio to cover it can help your investment advisor make adjustments to your investments to keep those funds in safer, more liquid investments.
- 2. Income taxes.** What type of tax planning do you engage in? Who is your tax advisor? Coordinating any tax considerations you face with your investment strategy is a prudent move. It may be possible, for instance, to offset large gains you are facing from other investments by taking losses from your portfolio.
- 3. Retirement goals.** Do you want to retire early? What types of accounts are your retirement assets held in? How are those accounts invested? It's very important to coordinate the investment strategies of your retirement plans with those of your overall portfolio, otherwise your investments may inadvertently be overweighted in one asset class, making it more difficult for you to achieve your goals.
- 4. Estate plan.** Do you have an estate plan? Who is your estate planning advisor? Ideally, your investment plan will be integrated with your estate plan to ensure that all of your objectives — for both now and the future — are being coordinated. For instance, proper planning can help ensure that your estate's liquidity needs can be met without having to sell assets you planned to leave to your children or grandchildren.
- 5. Insurance coverage.** Beyond life insurance, which can play a valuable role in your estate plan, insurance can affect your investment strategy. For instance, your health insurance situation can affect your plans for early retirement — requiring additional liquidity to cover the cost of premiums until you qualify for Medicare — and inadequate liability insurance can pose a threat to your overall wealth.

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your situation. Professional advisors typically also have a better grasp of how any changes you make will affect your overall financial strategy.

This big-picture view is important because, ideally, your investment strategy should be integrated with your retirement, estate and overall financial planning strategies. And all of these should be built around your individual goals and time frames, taking into consideration your cash-flow requirements, both now and in the future. Together, these considerations will help you find the right balance between the desire to preserve existing wealth with the need to make it grow to help you achieve your goals.

Finding the right advisor to help you create a long-term investment strategy is not a simple task, but it could be the most significant investment decision you make. It's important to find someone who will take the time to get to know you, your goals and your timeframe. He or she should ask, "Where are you now?" and "Where do you want to go?" and then help you bridge the gap. In the end, the best investment strategy is one that helps you achieve your goals — whether that's to buy a second home or fund your family foundation — within the time frame you set out.

Creating the Roadmap

To be effective, your advisor must examine your entire financial picture, not just your investment portfolio. DePorter says he views this approach as helping clients create a roadmap for their investment program. This roadmap will include not just investments, but also survivor protection and disability insurance. "You can have an investment base, but if the breadwinner dies or becomes disabled, what happens to the plan?" he says.

At the onset, you and your advisor need to discuss whether your investments are aligned with your goals. For clients who haven't defined specific goals, DePorter says he begins with a discussion of their values, such as their love for their children, and then works to translate those values into specific goals, like providing liquidity to pay for the children's education or preserving wealth to pass along to the next generation.

Mary Doucette, the head of Investment Consulting Services for Northern Trust's Wealth Management Group, tries to establish upfront several important aspects of an investment strategy:

- Do you need liquidity to make a major purchase, such as a vacation home or a business?
- Are you looking for income from your investment portfolio?
- How much can you afford to lose?
- What is your time horizon?

The answers to these questions can help determine your risk tolerance, which plays a vital role in developing an investment strategy. Those who need a steady source of income have a much lower risk tolerance than someone who is setting aside money for a foundation or endowment and has many years for the funds to grow.

The basis for your roadmap will be an overall diversified portfolio with a strategic asset allocation based on your objectives, timeframe and risk tolerance. And while you might be able to develop an investment roadmap yourself, you may not have the time or resources to make tactical adjustments to take advantage of exceptional opportunities that may arise due to changes in the market or general economic conditions. This is where an advisor's experience and wisdom can really pay off. An advisor likely will also have more time to monitor your investment portfolio over time and the expertise to make the adjustments necessary to keep your allocations appropriately balanced.

Hallmarks of a Successful Plan

No matter where you want to end up, working with an advisor to develop a plan that is focused on helping achieve your goals will increase your chances for success. A successful investment strategy should include an integrated plan that remains focused on your long-term goals and comfort with risk.

Constructing a plan that takes into account all of your needs and circumstances takes time and effort, but an advisor's objective set of eyes can help you transform the wealth of information available today into a comprehensive financial solution. ■