

4-Step Recovery From the Economic Storm

By Mimi N. Hackley, MPH, CFP®

The economy hurt your business. The market hurt your portfolio. You didn't do anything wrong. Now, what should you do *right* to move your financial future forward?

1. Assessment – Where are you and your practice as compared to your goals?

- Economic security is more than investing. Make certain you have ample cash reserves – a minimum of 3 months of expenses - in a money market account to supplement your income when the economy/your practice slows or a catastrophe strikes.
- Is your Financial Foundation solid? Review your account statements to be sure your investments are allocated according to your goals. Review your estate planning to be sure it is consistent with your wishes and that your medical directives and durable powers of attorney are current. Evaluate your insurance coverages – malpractice, E&O, business overhead, health, disability, life, property and casualty – to make certain they are appropriate for your current practice and lifestyle.
- Meet with your advisor to clearly outline the progress you're making toward all your goals, not just your investments.
- Do some soul searching to establish your true priorities. Do you really need \$XX million to retire and reach your goals? Which is more important to you; travelling, being active in social clubs or your grandson's education?

2. Give less to Uncle Sam – incorporate tax planning into your financial plan.

- Collaboration – You or your financial advisor should consult your tax advisor, your estate attorney, and your lenders to ensure you are taking advantage of recent changes. Would it be cost-effective to refinance your home or practice debt given today's low interest rates? Your accountant and financial advisor can help you determine the best ways to reduce taxes and keep more of your hard-earned money in your pocket.
- Given the prospect of higher tax rates, maximizing your company sponsored benefits can greatly reduce your taxes. If you have a High Deductible Health Plan, add and contribute to a Health Savings Account. If you have surplus cash and already have a 401(k)/Profit Sharing Plan in place, add a Defined Benefit Pension Plan to increase tax-deferred savings.
- Roth conversions – is it appropriate for you? Some of the deal breakers are using tax-deferred money to pay the taxes on conversion, dipping into the Roth before giving it at least 15 years of tax-free growth, and being in a lower tax bracket during retirement than you are now. If any of these apply, the Roth conversion is probably not appropriate.
- Medicare will not cover your health insurance premiums. Remember to incorporate additional health care and insurance costs.
- Social Security, pensions, annuities - calculate your real benefit, but be conservative as these only have a tendency to be reduced over time.
- Inflation – make sure it's reasonably incorporated into your projections.

3. Investments – Take advantage of what the market gives you.

“Doing the same thing and expecting a different result is madness.” Einstein

- In the past few years the market gave losses. In your taxable accounts, harvest all of your losses – you will need them in the future.
- You or your advisor should be actively managing your portfolio to help you maintain diversification and stay on track for your goals. Having a written plan in place can help prevent you from making emotional decisions during a downturn.
- Getting out of the market in the midst of a downturn simply locks in your losses. Better yet, recognize the down market as an opportunity to buy low. Generate some extra cash (by reducing expenses, typically) and begin dollar cost averaging right through the down market.
- Your practice is one of your most valuable investments. If you wish to sell, competent and profitable staff are a salable commodity. Look to develop profit centers that are transferable. If not selling, structure the business to maximize cash flow – make sure this “plan B” will accomplish your goals.

4. Take action – Avoid the media noise and just do what is necessary now.

“Rather than love, than money, than fame, give me truth”. Henry David Thoreau.

- Set clear personal goals and objectives. Focusing on your entire financial foundation rather than just your investments will help you keep the market in perspective.

- Commit to buying low and selling high (the opposite of what your emotions dictate).
- Do not panic on a market decline. Volatility is increasing, so brace yourself, but hold the course.
- Who and when to ask for help - can you trust your advisor, the politicians?

Work with a Fiduciary. Check out investment advisors at:

www.adviserinfo.sec.gov – review their ADV and fee structure (commissions vs. fee-only, etc.)

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