



TCI WEALTH ADVISORS, INC.

Communication: The Key to Financial Planning

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I recently celebrated my 10-year anniversary with TCI. The event caused me to pause and reflect on my prior career as a primary care physician and my new career as a financial advisor. What I realized surprised even me. In many ways, being a financial advisor is more difficult than being a physician.

Now, don't misunderstand me, medical school, internship, and residency are very difficult and rigorous. After all, the human body is complex and there are many causes of disease. The point I realized is that all of my medical training was designed to help me diagnose and then select treatment options for patients. I never had to spend time with the patient defining the desired outcome. Patients want to get better and stay healthy.

In financial planning, there is no universally desired outcome. There is no definition of a financial cure or financial well being. It is different for everyone. To illustrate this point in an extreme and simple manner,

some clients want to die and have the "last check to the mortuary bounce" while others want to leave millions of dollars for family or charity.

There may have been a time when financial advisors and clients thought the universally agreed upon desired outcome was "to make as much money as possible." I do not believe that to be the case and doubt any advisors who interact with individual clients in a more comprehensive wealth advisor role believe that as dogma.

One of the difficulties in selecting an outcome is that it is an individual decision for each client. Although age, income, family status, and employment status are factors that affect the decision, there is no formula. To put it another way: there is no right or wrong. In medicine, I would often reflect on what I would do personally if I were the patient (or it was my parent, child, or grandparent). In financial planning, my

Communication cont.

personal preferences may not be helpful and might actually be misleading.

Making a Financial Diagnosis

As an advisor, it is my role to meet with clients, ask probing questions, and at times, even challenge some of their answers to make sure we determine the appropriate desired outcome. Once the outcome is agreed upon, the design of the financial plan is not that difficult, unlike medicine where there is an almost endless list of diagnoses, prescriptions, and treatment options. In financial planning, there are only five main areas that can be changed.

1. Savings Amount
2. Expenses
3. Retirement Age
4. Portfolio Composition
5. Ending Value (Inheritance)

Because each of the variables can be changed independently, it is important to see how they all interact and affect the outcome. This is what we do and model for clients in a retirement cash flow analysis.

The current client discussions regarding Roth conversions are perfect examples of how complicated selecting the desired outcome can become. The question is whether to convert or not to convert, and if so, how much of the IRA to convert to a Roth. As with any comparison, one must determine the end point that should be used to compare the options. We need a finish line to pick a winner.

Maybe the decision to convert should be evaluated on a tax standpoint. But is it taxes over the client's lifetime or is it over the client and beneficiaries' lifetimes? Also does it include only income taxes or does it include estate taxes?

Maybe the decision to convert should be evaluated on a portfolio value standpoint. But is it portfolio value at the client's death, after the final income tax return is filed, or after the income tax and estate taxes are filed? And then there is the whole discussion on what the Roth allocation should be. Can the client tolerate a more volatile equity portfolio? Maybe not if the endpoint is the client's life. But what if the endpoint is

the beneficiary's life?

As a financial advisor, before I even begin to chart a course for financial success, I am obliged to define the destination. To use another analogy, I become the copilot with the client. We must agree on our destination first, chart a course, then monitor our progress, and make adjustments as needed. Even more important than flying, it is normal and almost expected that a client's destination will change some time during his or her lifetime.

Creating an Ongoing Relationship

This leads me to the part of financial planning that I truly embrace and enjoy. I need to have a deeper understanding of and an ongoing relationship with my clients. In medicine, it is possible to know very little about a patient and still provide good medical care. Think about an ER physician or an urgent care physician. By knowing as little as current symptoms and allergies to medications, a good outcome can occur. In financial planning, a quick recommendation is impossible (unless "the advisor" just has products to sell, but that is a topic for a whole other article). The financial planning client might have just lost their job, have a disabled child, have family members that may need care, have a child going to Stanford, or any number of circumstances that will alter the recommendation.

We have a saying at my home with our five daughters. In any relationship "communication is key." Financial planning is no different. Clients need a "planner not just a plan" and that by definition means an ongoing relationship with candid communication.

So as I look back, being a primary care physician was easy. I now look forward to the rewards and challenges of being an even better financial advisor.

John Stephens, MD, CFA, CFP®, MBA, focuses on helping clients simplify their financial lives. He specializes in helping doctors and senior-level executives build and maintain wealth independent from their business.



Upcoming Events

January 2010

- In late January, we'll reveal our new local artist exhibit.

February 2010

- 18th: TCI Webinar

Previous Webinars

- You can view previous TCI webinars, including the most recent which included a discussion on Roth IRA conversions, at tcwealth.com. Please click on TCI Resources and then the TCI Media section of our website to find our webinar archive.

Employee Spotlight: Tammy Morgan

Tammy Morgan began her work at TCI Wealth Advisors as a part-time receptionist in 1998 and eventually moved into that role full-time in July, 2001. Tammy is a self-admitted social butterfly and loves to talk to people, so the role was a natural one for her. That position gave her the opportunity to gain experience in many different arenas within the firm, including trading, billing, and reporting to name a few. That knowledge has helped her to achieve her current role as an Associate with TCI. She sees that her clients' needs are met from start to finish whether it be paperwork, transfers, or opening new accounts.

Tammy was born in Mountain Home, Idaho, but grew up in Crawfordsville, Indiana, and graduated from Purdue University. She spent time living in San Diego before moving to Tucson in 1993 with her family. She married Derrick Morgan in 2003, and between them, they have 5 wonderful children: Tammy's daughters Nicole and Amber and her step-children: Brittney, Liz, and Matthew who live in Indiana.

Tammy's interests include reading, playing sports, making jewelry (she loves the GEM show), shopping (online or otherwise), traveling to the Caribbean, and attending St. Thomas Apostle Catholic Church. Though she has a great many things she enjoys, Tammy derives



the most joy from spending time with her family and friends, especially with the kids all being grown.

It was difficult for Tammy to narrow her favorite part of the job down to just one area. She truly enjoys working with her clients but is also grateful for the continued chance to learn new things. She feels like her time at TCI has provided her with unique opportunities that have allowed her to achieve things she might not have been able to otherwise. She looks forward to continuing her work with clients and with TCI.

A Planner, Not a Plan

It is dangerous to mix investing with entertainment. The classic example is thinking that Jim Cramer is a financial planner rather than some sort of circus clown.

That seems to be pretty clear cut.

What is just as dangerous, but far more tricky, is understanding the difference between good (even great) financial information and real financial planning.

There is a huge difference.

Take a look at excerpts from two articles:

- *Bond ETFs Draw a Surge of Funds*: “Investors burned by the stock-market meltdown are piling into bond exchange-traded funds in an effort to tone down risk and generate stable income. In particular, ETFs tracking inflation-protected bonds and corporate debt have seen cash fly in the door this year, which reflects the trend of more investors using bond ETFs to manage the fixed-income side of their portfolios, industry insiders say.”
- *The New Bond Equation*: “As the financial crisis heads into its third year, investors in bond funds are facing some difficult choices. Investors usually turn to these funds for safety. But bond funds are facing a host of pressures that are driving down returns, raising long-term risk and making it tougher to settle on the right investment strategy.”

Both articles appeared in the *Wall Street Journal*. Both articles were about bonds. Both contain good, well-researched information, but good luck trying to figure out what you should actually do with your life savings based on them. One makes it sound like bond funds are a good place to put “safe” money, and the other makes it sound like a gamble.

This is not meant to be a criticism of the *Wall Street Journal*, far from it. It is meant to prove the point that for real people trying to make very important decisions about their money, it’s painfully conflicting information.

The point is this: the financial press, personal finance bloggers, and best-selling authors are often GREAT sources of information. But please, please, don’t confuse

great information with real financial planning. One issue is that real financial planning is personal. It has to be.

A good plan will be unique to your situation, and what is right for your situation may be a disaster for your neighbor. Sometimes these sources of information can help you make better planning decisions, BUT without going through the process of planning for your situation, it often becomes a painful experience figuring out how it applies to you.

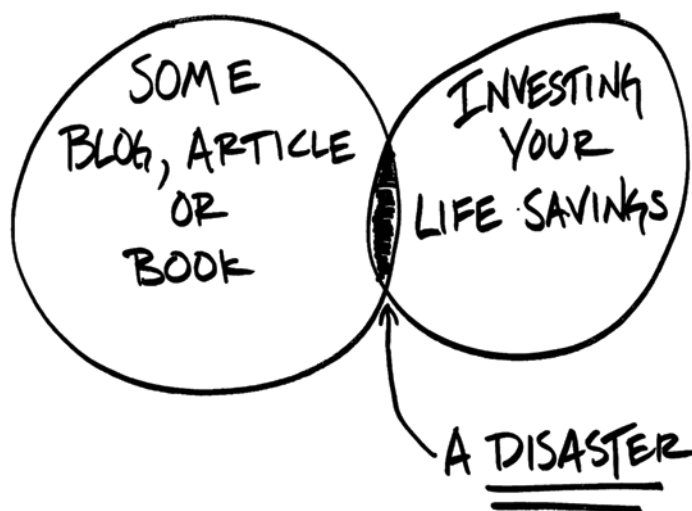
The Assumer

Once you recognize that information isn’t enough, you can focus on creating a plan that fits your needs and goals. However, you must be careful to not place too much weight in your plan; in fact, most plans are little more than guesses.

This advice may sound like a contradiction, but the plan is only part of the solution. The problem is that when you are making plans, someone has to be the assumer (sounds like some evil villain). And the assumer has to make really important assumptions, forecasts or guesses about different variables—which will always be wrong.

Those variables include:

- What is inflation going to be?
- What rate of return will you assume for stocks, bonds, and cash?
- What will the level of standard deviation be (do you still believe it’s a good proxy for risk)?



Do you see a problem here? How can anyone expect to have any real idea what the rate of return will be for the next 10 years, let alone get all the assumptions right. In 2007, Alan Greenspan was on with Jon Stewart and said:

“...The trouble is we can’t figure that out...I’ve been in the forecasting [assumption] business for 50 years, more than that actually, I’m no better than I ever was, and nobody else is...forecasting [assuming] 50 years ago was as good or as bad as it is today.”

Forecasting is really guessing, and no one is any good at it. The assumptions that go into a financial plan are really forecasts, and in the end, nothing more than guesses. A financial plan should be nothing more than a starting point, a best guess to get started. The plan is worthless without the ongoing relationship with the planner. We have talked about this before; it is about the planner, not the plan.

Financial Plans Are a Joke

If we start by accepting the fact that the assumer will be wrong, then we can move on and understand the real power of the planning process. If you can accept (and find a planner that accepts), then you hire a planner for the ongoing advice. You do not hire a planner to give you a map, but to help you navigate the ever-changing landscape.

You just don’t have the information that you need before the fact. This is true when you start a restaurant, a business, or when you are planning the rest of your financial life.

Now here is the key: we did not say that financial planning is a joke. Nor did we say that financial planners are a joke. Plans are a joke. That is part of the reason that so many people have had such a bad experience with the financial plan industry. They end up with a two-inch-thick book that collects dust.

The game changer is when you understand that you need a planner, not a plan! You need a planner that knows their value is in the ongoing advice—the course corrections—they will provide as more information becomes available.

TCI Hosts Local Artist

This fall TCI Wealth Advisors announced that it would host local artist exhibits. Located at the new headquarters in Tucson (4011 East Sunrise Dr.), the inaugural exhibition presents images from photographer Kevan Schlamowitz. The ongoing exhibition will last until January 15, 2010. Clients are welcome to visit the exhibit Monday through Friday from 3:00—4:00 p.m.



Local artist Kevan Schlamowitz explains how he looks for beauty that often goes unnoticed.

In describing his work, Kevan says by looking carefully and exercising patience, he showcases the beauty of commonplace events and locations that most people take little or no notice of. Through his images, he provides the chance for people to see these things with a new perspective.



Clients are welcome to view the exhibit until January 15, 2010.



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