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When It Comes to Your Financial Future, Do You Have A 20/20 Vision?

Seven Key Financial Fundamentals To Help You Become More Financially Fit in the New Year

Every January, most of us set out to make a list of resolutions that are designed to address a concern that has been on our minds for months, maybe even years. Lose weight . . . learn a new skill . . . get more organized. We deem "this year will be different" and vow to "stick with our plan." But often, after several weeks or months, our best intentions are placed on hold, so we can concentrate on the realities of our day-to-day lives.

As a wealth advisor who has worked with individuals and families for more than 30 years, I am well aware of the desire by many to become "financially fit." It is a very honorable New Year's resolution and one that should be encouraged and commended. The fresh start of a new year is the perfect time to pause and take stock of where you are today and where you want to be in the future. It is not only a good time to review your resolutions for 2016, because in just four short years, it will be the year 2020. Do you have 20/20 vision, or is your financial future a little fuzzy?

Back to the Basics

Achieving your financial goals doesn't have to be an overwhelming experience. Just like an athlete working towards the goal of playing professional baseball, it all begins with having command of the fundamentals.

Just look at Derek Jeter. A true professional, who will undoubtedly be a first-ballot Hall of Famer. Yes, he's broken many records, proudly dons five World Series rings and has inspired his Yankee teammates as captain of the team for 12 seasons. But much of Jeter's success is attributed to his mastery of the Game's fundamentals. Every year during spring training, Jeter went "back to the basics," practicing over and over again the fundamentals of the sport he loves. Not fancy plays, but the endless hours of fielding ground balls and taking batting practice.

It seems as though investors have forgotten about the basic fundamentals of investing. Great players like Jeter continue to practice the basics because that's how they became great players and that's what keeps them at the top. Jeter is famous for never deviating from his routines in batting practice and catching grounders; the cumulative effect of mastering the variety of baseball's fundamentals – combined with practice, repetition and discipline – made Jeter a great ballplayer and leader.

This is true for investors as well. Understanding and mastering the fundamentals of sound wealth management will set the stage for helping you to preserve and grow your financial assets, so you may live comfortably today, while protecting your legacy in the future.

Financial Fundamentals

Comprehensive wealth management focuses on helping you make informed decisions that tackle your most important financial concerns. Outlined below are what I believe are the seven key financial fundamentals that, once incorporated into a wealth management strategy, may help maximize the probability of achieving your most important financial goals.

1. **Start with a Plan.** As with any investment – a family, a home, a college education – results you are seeking may be achieved by carefully constructing a plan, and then following that plan consistently over time. A well-crafted investment plan provides a broad context for making important financial decisions and then prescribes a prudent investment philosophy and set of investment management procedures for achieving your long-term financial goals.

2. **Asset Allocation.** This technique determines how to distribute your investment dollars among the major asset classes, specifically stocks, bonds, cash, and other types of investments. The key to effective asset allocation is understanding both risk and return, since various asset classes tend to have different risk and return characteristics relative to one another. Professional wealth advisors are skilled in how to ask important profiling questions to determine your specific level of risk tolerance. This will help guide the specific asset allocation recommendations for you. It's important to note that asset allocation does not guarantee a profit or protect against a loss.

3. **Diversification.** Like asset allocation, diversification is another key fundamental in managing your money proactively. Diversification is the combination of various asset classes seeking to reduce overall volatility. When you diversify your portfolio effectively, you may help smooth out the "highs" and "lows" of each asset class, potentially reducing the overall risk of your portfolio. Like asset allocation, diversification does not guarantee a profit or protect against a loss.

4. **Dollar Cost Averaging.** We all know that market fluctuations are unpredictable. Using Dollar Cost Averaging lessens the risk of investing a large amount in a single investment at the wrong time. Simply stated, dollar cost averaging is a technique used to purchase a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high, striving to lower an investor's cost over the long term. This disciplined approach helps take the emotion out of investing, by enabling you to focus on meeting your financial goals, rather than trying to "time the market."

5. **Tax Management**. No one approaches wealth management with the goal of paying more taxes. Tax management, like all financial planning fundamentals, is based on the premise that small changes made over time can achieve big goals. Good investment returns are important. But over time, comprehensive tax management may reap even greater gains.

6. **Reduce Fees and Costs.** As with anything you buy, there are fees and costs associated with investing. Over the years, and especially decades, the difference can have an impact on the overall potential of your investment returns. Fees aren't all bad in and of themselves, but they can eat away at your returns if you're not careful. When it comes to investing, look to minimize your fees to the greatest extent possible, and only pay more if it will help you build wealth over the long run.

7. **Stay Invested.** No one can predict the movements of the market for the next month, let alone the next year. In every market cycle, there will be "up" days and "down" days. While past performance is no indication of future results, missing even a few of the stock market's best-performing days can result in significantly lower returns than if you had stayed invested in the market index. With much of the market's long-term performance captured on the strongest days, it pays to stay committed to your investment strategy and not stray when markets become more volatile.

Make a Game Plan for 2016

Like a world-class baseball professional such as Derek Jeter, achieving financial success is more about hitting singles and doubles than hitting homeruns. It's about understanding and mastering the fundamentals of investing, and then practicing them over and over. Resolve to focus on the fundamentals in 2016. Over time, you'll begin to see that repetition and discipline are the keys to not only protecting your wealth, but accomplishing your long-term financial goals.

About the Author

Robert D. Finan is a Senior Vice President, Financial Advisor and founding member of the Finan Group at Morgan Stanley. A wealth management professional for more than 33 years, Bob has dedicated his entire career to helping individuals, families and small business owners achieve their financial goals. His approach focuses on a comprehensive wealth management plan and a commitment to providing outstanding service and advice. Robert Finan was named to the Financial Times' list of America's Top 400 Advisors in 2015.

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