

## They Work Hard for the Money

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Harold Evensky Reshma Memon

### One of our top advisers walks you through the planning process

Three hundred thousand people are walking around this country with business cards that read "Financial Planner." Two hundred and fifty of them are listed on these pages--Worth's choices of the best financial planners in the country. These advisers have been recommended by the best of their peers, screened for any legal, fiscal, or regulatory improprieties, and reviewed for the quality and clarity of their advice. Now the question is, What can these people do for you?

I'm on the list. Let me tell you what I do for clients who come to me seeking investment advice. That should help you decide if you could benefit from the type of financial planning that I--or one of my 249 fellow advisers--provide.

In a nutshell, I help people meet the financial goals they set for themselves. I don't make people rich. People get rich by inventing widgets. And I don't make people poor. People get poor by following hot tips.

I help people sleep better at night knowing that their daughter's wedding will be paid for and that they won't be stuck eating early-bird specials after they retire. How? By creating a financial investment plan that they can live with: a road map of their financial future.

When new clients walk into my office in Coral Gables, Florida, as Kamran and Sadia Warsi did this summer, the first question I ask is, "What brings you here?" (The Warsis are not a real couple--among the pledges I take is one of confidentiality--but a composite that represents a segment of my clientele.) Then I listen hard--it's the most important thing a financial planner can do, because it's not my job to decide what the Warsis want. It is my job to understand exactly what they want and help them meet those financial goals through careful planning. I don't have a formula that I plug them into. I don't have a stock to sell them.

For a financial plan to work, the Warsis have to tell me the truth about their money. That means no hidden accounts or hidden debts. I've got to know more about the clients than their attorney, their banker, maybe even their minister. Otherwise, my advice might inadvertently hurt them.

Here's what Kamran and Sadia told me. They were both 50 years old. He was an office manager; she was an accountant. They made \$120,000 annually. Over the years they had socked away \$211,000 in several individual retirement accounts and personal accounts: 38 percent in bonds and 62 percent in stocks and stock funds--a moderately conservative portfolio.

I questioned the Warsis in detail about their goals. They were hoping for an early retirement, in about five years. Even though they made \$120,000 a year, they would need an annual income of \$70,000 to maintain their current lifestyle--which was really all they wanted to do. That would be enough to travel a bit, play some golf, eat out a lot, and continue to live comfortably in the \$300,000 home they'd just about paid off.

The Warsis anticipated receiving \$60,000 a year from pensions and 401(k)s; this meant they'd need \$10,000 a year in today's dollars from their investments--an annual return of 4.8 percent after inflation. Fifteen years from now, Social Security will kick in, giving them about \$20,000 a year in today's dollars. But they didn't want to count on that; they'd just use it as a cushion.

My task was to balance the Warsis' required return with their risk tolerance--the amount of gut-wrenching variation in the value of their investments they could endure without calling me to scream, "Sell! Sell!"

Naturally, everyone would love to invest for high return and take no risk. Unfortunately, real-world investments don't work that way. To get the return they needed, the Warsis would have to put 60 percent of their money in equity mutual funds and 40 percent in fixed-income investments--pretty much the balance they had already reached. I figured that out through an analytical procedure called capital-needs analysis, which balances projected expenses, outside income, and inflation expectations.

To determine the Warsis' risk tolerance, I asked questions about which kinds of financial fluctuations would make them sweat. Was it more important to preserve capital or to generate cash flow? Was low volatility more important than maintaining their purchasing power? I scored their answers and estimated their risk tolerance to be 70 on a scale of 1 to 100. That meant they could psychologically handle putting 70 percent of their investments in equity mutual funds.

Luckily, the amount of money the Warsis felt comfortable investing in mutual funds was higher than the amount they would have to invest to get their desired return. If their risk tolerance had been lower--40, say--they would have had to decide if they wanted to eat less well or sleep less well in the coming years.

Even though their risk tolerance was 70, I'd stick with 60 percent of their money in equity mutual funds--that's all they need to meet their goals. I don't try to make people richer than they need to be at the possible expense of making them poorer than they need to be. If the Warsis had many more years before retirement, I would have recommended investing up to their tolerance level. There's more upside potential, and the longer time frame would help smooth out the increased volatility.

Before I recommended any type of investments to the Warsis, I made sure they had sufficient property, casualty, disability, health, and life insurance, as well as proper estate planning. I won't assume the responsibility of investing money that should be used for other purposes. If a couple say they have property out of state but would rather spend their money on investing than on liability insurance, or if they'd rather invest than get enough life insurance to protect each other, I'll tell them to go to another planner. Like a doctor, I won't knowingly prescribe the wrong medicine, even if someone requests it.

I also made sure the Warsis had enough money in emergency reserves for the next two years. By "emergency," I don't mean loss of income--if one or both of them were to become unemployed, that would require a thorough reassessment--but unexpected expenses that won't be covered by their current salaries. Let's say the living-room ceiling comes in, for example. They won't have to touch the rest of their portfolio, beyond their reserves. The Warsis estimated that the most they might need for an emergency was \$9,000. So I allocated \$5,000 to a money-market account and \$4,000 to checking. (If or when the time comes that the Warsis have only enough in emergency reserves to cover six months, the portfolio should be rebalanced to rebuild the reserves.)

That left \$202,000 to invest in a five-year plan. I won't invest money that a client will need in less than five years, because I don't believe in market timing. Money you need in less than five years should stay in fixed income.

We had already determined that the Warsis ought to put 40 percent of their money in fixed income and 60 percent in equities. Part of what makes a safe, effective portfolio is mixing together risky investments--but ones that move in different patterns. When swimsuit stocks go up, umbrella stocks go down.

Then I used a mathematical analysis called optimization to decide how to divvy up that money within each category--how many dollars should go into taxable bonds, how many into international mutual funds, how many into domestic growth funds, and so forth. I estimated how much return the Warsis could get from each of these asset classes over five years, calculated the standard deviation for these expected returns, and evaluated how these asset classes would move relative to one another. I put all that into a computer program called a mean-variance optimizer, and it generated answers that I tinkered with until they worked under the constraints of this particular portfolio. The computer can provide an infinite number of plans from the given variables, many of which are obviously unsuitable for the client, so I search the results for the most reasonable. It's 10 percent science and 90 percent professional art.

Okay, 40 percent fixed income. Since I don't have a Ouija board that predicts interest rates, I used a strategy called laddering, which calls for investing in bonds with a broad range of maturities. When choosing between taxable and tax-free bonds, I look at how much money a client will be left with in the end, not just how much will be paid in taxes in the duration. In the near term, short-maturity taxable bonds usually come out ahead of tax-free bonds. But as the maturities get longer, tax-free bonds start to come out ahead. When, exactly, that shift takes place depends on the market and the client's tax bracket, so the mix has to be customized.

I recommended the Warsis put 3 percent (\$6,000) in cash and 6 percent (\$12,000) in short-term taxable bonds with one- to three-year

maturities; 17 percent (\$34,000) in short to intermediate tax-free bonds with three- to five-year maturities; and 14 percent (\$28,000) in intermediate tax-free bonds with five- to ten-year maturities. That's \$80,000 in instruments that will mature in stages over the next five years.

Now, 60 percent in stocks. I generally advocate putting money in funds, not individual stocks. To beat the market by picking stocks requires that you beat the big brokerages and all their research capabilities. Mutual funds make more sense for the little guy. I divide stock funds into those that invest domestically and those that invest internationally. I separate domestic funds into large- and small-company funds. Large-company funds are broken into core holdings (basically funds that mimic the market, like index funds), value stocks, and growth stocks. International-stock funds are divided into developed countries and emerging markets. Here's the balance I recommended to the Warsis: Domestically, put 7 percent in a core fund, 12 percent in a large-company value fund, 7 percent in a large-company growth fund, and 16 percent in a small-company index fund. Internationally, put 14 percent in developed countries and 4 percent in emerging markets.

This plan would meet the Warsis' immediate and intermediate needs, even if some things went wrong. Say a year from now, during a horrible market, the Warsis had an emergency and needed more than their \$9,000 reserve. Well, they wouldn't have to pull money from the market at a loss, because we've also kept \$6,000 in cash, \$12,000 in one- to three-year bonds, and \$34,000 in three- to five-year bonds.

Once I put the Warsis' investment plan on paper--20 pages in all--I met with them to explain it. We talked it through and marked it up. I wanted them to see it as a working document, not something to bronze and put on the coffee table. Financial planning is a process, not a product.

When the Warsis were satisfied, they took that plan, for which they paid me \$2,000, and implemented it themselves, with their broker. They selected the funds they wanted to use from categories I specified. I didn't pick the funds, because I won't be monitoring the account. Like a doctor, I've told them what pills to take, but I'm not going to look down their throats to make sure they swallowed. Clients who choose to work with me on a longer-term basis can hire me to manage their portfolios indefinitely. If they do, I'll select the funds, open the accounts, implement the financial plan, and monitor it. As cash reserves are used up, as goals and needs change, as their kids graduate from college, as the economy changes, I update plans and rebalance portfolios. I review long-term clients' financial plans quarterly and talk to clients at least once a quarter.

Some financial planners have a minimum for portfolios that they will actively manage. My firm's minimum is \$1 million in invested assets, and I charge up to 1 percent a year to manage that money. There are planners who work with portfolios of all sizes, and many have no minimums. Planning fees range from a few hundred dollars for a computer-generated plan to \$5,000 or more for a comprehensive financial plan.

Regardless of your choice, be sure you're comfortable with what you're getting. It's not just your finances you're planning; it's the quality of the rest of your life.

The financial-advisers package was reported by Lisa Anderson, Dave Califano, Louisa McCune, Jim Melloan, Jonathan Pont, Jacqueline Richardson, and Phyllis Stinson.

# The 250 Top Financial Advisers

Tom Nawrocki

As much as a great financial planner can help to optimize your financial affairs, a bad one can do considerable damage. So we're extremely careful about whom we recommend. Our bottom-line question: Would we send our own parents to this professional?

Last year, after an exhaustive selection process, we named 200 financial planners as the top advisers in the nation. This year, we've added another 50 advisers to the list.

In preparing our 1997 list, we revisited all of the advisers we selected last year. We checked in with them to make sure that our information

was up-to-date, that they or their firms were still accepting new clients, and that their credentials and track records remained pristine. This process left us feeling very comfortable about the wisdom of our 1996 picks.

To add to our list, we accepted several hundred nominations from last year's top advisers. New nominees underwent the same rigorous scrutiny as the incumbents, including a thorough background check and a review of samples of their work. We've also expanded our geographic coverage so that more of our readers will be able to select a planner near them.

## Hawaii (Only Advisor in Hawaii)

<b>Name</b>	Kasanow, Harry
<b>Designations</b>	CFP
<b>Firm</b>	Kasanow & Associates: Wealth Management
<b>Address</b>	3268A Paty Drive
<b>City</b>	Honolulu
<b>State</b>	Hawaii
<b>Zip</b>	96822
<b>Phone</b>	808-988-1311
<b>Fax</b>	
<b>Email</b>	<a href="mailto:harrykhi@hawaii.rr.com">harrykhi@hawaii.rr.com</a>
<b>Avg. Client Net Worth</b>	\$1.5 million
<b>Specialty</b>	Retirement Planning Tax-efficient Investing Small Business Planning