

8 Myths of Financial Planning

Dear Valued Clients & Friends:

In a month or so, America heads into the summer "vacation" season and it makes sense that people are busy planning their getaways. Having a financial plan is a lot like having a travel plan in that it identifies where you're going, how and when you'll get there, how much it'll cost, and things to do along the way. Like planning a vacation, your financial plan can be loosely structured or highly detailed based on your individual needs. However, having no plan at all could leave you stranded in the middle of nowhere.



A recent Household Financial Planning Survey conducted by the Certified Financial Planner Board of Standards found that only 31% of financial decision makers in families say they have created a comprehensive financial plan either on their own or with professional help. Creating a financial plan helps you see the big picture and set long and short-term life goals, a crucial step in mapping out your financial future. When you have a financial plan, it's easier to make financial decisions and stay on track to meet your goals.

At McCarthy Grittinger Financial Group, we want to help you navigate through life's major (and minor) transitions. Our team of experienced planners are here to assist you whenever you have a planning need.

Communication and education are top priorities for us as we help our clients better understand risk, reduce anxiety and build confidence about their finances and life. To that end, here are some common misunderstandings about financial planning.

8 Myths of Financial Planning Debunked

1 Financial planning is **only for the wealthy.**

One of the most common mistakes people make is assuming that unless they are wealthy, they don't need a financial plan. What many people don't realize is that the way to a higher net worth may be achieved through financial planning; a successful plan can help anyone more efficiently use their assets to build wealth over time. In fact, research has shown that financial planning can benefit those at lower income levels as well as the top 1 percent. Financial planning is about helping you achieve both short and long-term financial goals, such as buying a car or home, putting your child through college or saving for retirement--common goals whether you are wealthy or not.

2 I'm **too young** to need a financial plan.

It's true that younger people usually have lower salaries and fewer assets, so it may seem like there's no reason for them to have a financial plan. However, starting to plan early can help establish good financial habits, providing a solid foundation to build on. Young people also have time on their side--the money they invest will have longer to grow and can reduce the amount they will need to invest later on. The sooner you start making smart financial decisions, the sooner you can be on the way to achieving your goals.

3 Financial planning is **the same as retirement planning.**

A solid financial plan helps save for retirement, but retirement should be one of many goals within a plan. Many people assume that a 401(k) or IRA is all the financial plan they need, but one of the most crucial aspects of a financial plan is deciding how to balance retirement savings with other savings needs. If you only save for retirement, you could find yourself in financial trouble if a crisis hits. You might have to dip into your retirement savings because you haven't made other savings plans. By determining and prioritizing your money goals, a financial plan can help you allocate your money responsibly.

4

I don't need a formal financial plan if I always make good financial decisions.

While you may make good financial decisions, a series of choices made without a clearly thought out plan does not constitute financial planning. It's almost impossible to balance retirement planning, investing, cash flow, tax considerations, estate planning and insurance needs without a blueprint. Some people think that as long as they have sufficient life insurance, for example, their family will automatically be provided for if anything should happen to them. But life insurance is just one part of estate planning and is often used in conjunction with other tools to provide for your family's needs. Too many people think that financial planning is simply about buying a product, such as insurance, as a "magic fix" for their money problems. In reality, financial planning is complex, and just doing your best to make a smart choice when faced with a financial decision isn't enough; you need to know how that decision will play out down the line, and for that, you need a plan.

5

I don't need to have a plan until...

Many people don't think about a financial plan until they need one, such as when they're making a big purchase or, worse yet, facing a financial crisis. The very definition of planning indicates that you need to start acting well in advance of these situations. Financial planning is about more than just those big moments in life; it's about establishing a plan for your day-to-day life, too. After all, it's in the day-to-day that you save for that big purchase or prevent a potential crisis by building an emergency fund. Imagine if you knew your spouse was about to turn 50 and you wanted to throw a party. You wouldn't wait until the day of and simply expect cake, streamers and guests to show up on their own. Rather, you would likely have to plan for weeks or months in advance to ensure that everything went smoothly. Planning takes work, and it may be easier to continue to put it off, but just as you don't want your spouse to show up to a party with no guests, you don't want to be caught off-guard without sufficient funds.

6

Financial planning is just investing.

Unfortunately, the word investing has become interchangeable with financial planning in many people's minds. When you discuss asset allocation or rebalancing your portfolio, although these are investment concepts, what you can really learn is how your overall strategy should change based on your cash flow, or how your investments will play into your goal of saving for your children's college fund. As with any part of financial planning, investing will affect the other parts of your financial plan--but that doesn't mean that all you will get out of a plan is market advice.

7 Financial planning is **the same for everyone.**

In the same way some people reduce financial planning to simply "investing" or "retirement," some people think that financial planning can be reduced to a set formula for success. They think that as long as they contribute to a 401(k), maintain a 60/40 asset allocation or purchase X amount of life insurance, they will be fine. However, it's important to remember that no two financial situations are exactly the same. That's what makes a financial plan so vital--it's tailored to you specifically, so you can be sure that you're making the best decisions based on your own lifestyle and no one else's.

8 Financial planning is **a one-time activity.**

You may want to simply write up a financial plan and then follow it to success. However, it's unlikely that your financial circumstances will stay the same throughout your life, so your financial plan will have to change, too. For example, as you earn more money and approach retirement, you will likely want to put more money into your retirement account. As your risk tolerance decreases the closer you get to retirement, you will probably embrace a more conservative investing style. Just as you can't buy a pair of pants when you're 20 and expect to still be wearing them at age 70, you can't expect your first financial plan to last you into retirement.

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