



**CARNICK
& COMPANY**

PERSONAL FINANCIAL ADVISORS

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**“Helping Individuals Achieve A Lifetime of Peace Through Personal Success”
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The Art of Comprehensive Financial Planning

Our firm typically works with high-income or high-net worth business owners and professionals. While impartial, non-sales oriented financial planning is appropriate for almost everyone, the sad truth is that not everyone has the motivation to take advantage of the process. In the main, high-income/high-net worth individuals initially are driven to comprehensive financial planning because they are concerned about a single issue, for instance taxes, investments, insurance or estate planning. These individuals come through the door hoping for advice that won't result in a sophisticated sales presentation masquerading as an impartial analysis; All too often, they've already experienced this approach! So a typical client presents us with a problem; Perhaps, for example, she feels she is paying too much in taxes. However, after an initial consultation, we find that the “too-much taxes” complaint is just the tip of the financial planning iceberg and is indicative of far greater concerns that become evident upon closer examination.

To the typical stockbroker, life insurance salesperson or other product purveyor, the “too much taxes” concern would result in a product recommendation – say, tax-free bonds from the stockbroker, or an annuity from the insurance agent. And not surprisingly, both of these stand-alone product recommendations would typically reduce taxes for a high-income client. But the failure of the sales process here is clear; The product purveyor has failed to really dig into the client's situation to make sure that in avoiding the obvious above-the-water iceberg (in this case, “too much taxes”), the more serious, below-the-surface life planning issues don't get missed. Can you imagine a patient presenting a

doctor with serious abdominal pain and the doctor just recommending a hefty dose of Demerol to treat the symptom? Of course not! The medical professional would insist on a complete examination to determine the exact origins of the pain and any other contributing factors. This analogy is exactly appropriate for the true, comprehensive financial planner.

I use the term “true, comprehensive financial planner” because all-too-often, the term “financial planner” is hijacked by sales organizations hoping to bait-and-switch the unsuspecting prospect. Sure, the sales materials will say, “we are financial planners and we’ll help you achieve your lifetime goals.” But when all is said and done, this help typically comes in the form of insipid projections of future net worth designed to clinch the sale of cash value life insurance, mutual funds, wrap accounts or some other product-focused strategy. The true, comprehensive financial planner has to reclaim the ground lost to legions of sales people and powerful marketing organizations. These sales-oriented product hucksters have co-opted the concept of financial planning and made it into an all-too-slick cover for selling products. And to reclaim this high ground, the consumer has to be shown the difference between the lifetime approach of a true, comprehensive financial planner vis-à-vis the shallow, instant gratification approach of the product salesperson.

Let’s stop for a few moments to consider these individuals selling product-oriented solutions. Whenever I go down this road, I’m reminded of how a psychiatrist once described a life insurance salesperson trying to sell him a cash value policy. Said the doctor, “I do believe this guy is honest, but boy-oh-boy, is he ever conflicted!” I am also reminded of a comment uttered by a life insurance salesman sitting next to me on an airplane flight some years ago. When I began talking about my inclination towards term life insurance, the agent actually agreed with me, but then confessed in desperation, “If I sell whole life I can’t sleep, but if I sell term, I can’t eat. What the hell am I to do?”

From our perspective, the simple fact is this: If a client knows what to buy – be it insurance, investments or a BMW, then fine; they should go to a sales person and buy that product. But the problem is that while most clients may know what car they need, they seldom know what financial products they need, let alone understand the internal workings of these complex and confusing purchases. There is absolutely nothing insidious, evil or conspiratorial about individuals or organizations who “sell” financial products. At the most basic level, the problem arises when the seller of the product provides advice recommending said product all the while wrapped in the cloak of presumed impartiality. From the standpoint of objectivity, this dog just won’t hunt!

Funny, isn’t it? A perfectly intelligent, rational person will shop for a new car between multiple dealers and maintain a very healthy level of cynicism as one super-salesperson after another touts the advantages of their particular vehicle. But just let that same “intelligent, rational” person get in a room with a life insurance agent who works for one of the big insurance companies (You know, the ones that like to show their skyscraper of a home office in their TV advertisements) and that healthy cynicism goes out the window like a piece of antique stained glass in a Texas twister.

The Task Of Today's Diogenes: Finding An Impartial Financial Planner

There is more to managing wealth than just accumulating assets. The financial planner's main task, and certainly our firm's constant focus, is to help clients understand and successfully deal with every aspect of their financial lives. And we do it the only way possible--- on a personal, one-to-one level, tailored to each client's unique needs and objectives. First of all, we are 100% committed to our fee-only approach that allows us to provide counsel that is objective and all-encompassing. While we believe product purveyors can certainly fill an important subsidiary role, we don't believe the client's best interests are served when the architect of a plan is also the general contractor as well as the building materials dealer!

So our approach, and the approach of a hundred or so other nationally recognized firms, is to begin our examination of a new client's situation with a clean slate. We don't know what products, if any, the client will need as they begin the process of designing their lifetime financial plan. In fact, most clients don't need to buy much at all once the financial plan is complete! And the reason is simple; Comprehensive financial planning is a process that seeks answers and long term strategies. Comprehensive financial planning brings into the present the fulfillment and peace that our clients typically have projected and deferred into the future. So many times, we've witnessed the situation where a person equates their net-worth to their self-worth. Comprehensive financial planning helps clients realize their true self-worth is actually based on who they are as a human being, the values they espouse and the positive effects they can bring into the community around them.

Comprehensive financial planning executed by an experienced, non-conflicted practitioner helps clients gain a better understanding of themselves and empowers them to take meaningful steps to improve their lives and the lives of others.

And herein lies the truth about the needs of the high-income/high-net worth client: These individuals are not seeking to buy something. They are seeking an impartial advisor who will help lead them through the thicket that has become our modern financial environment. A competent financial planner works diligently to reduce the client's mental burdens and stress that results from dealing with life's many and increasingly difficult decisions.

So all this "stuff" about comprehensive financial planning is interesting. But are we talking about the best possible portfolio allocation? Are we talking about selecting the perfect stocks to buy? Are we talking about tax-free versus taxable? What about credit ratings and yield-to-maturity calculations? No, we're not talking about any of these financial-focused concepts at all – not if we're talking about comprehensive financial planning. Unfortunately, if I say I'm a "comprehensive financial planner" to a crowd of 100 people at the local mall, I guarantee that 99% of those people will think I sell insurance, stocks, annuities or mutual funds, if not all four. And that's because the

insurance companies, brokerage firms, mutual fund organizations and 100,000 or so sales-oriented individuals have created the worldwide impression that financial planning equals something focused on a monetary product. Here's what most people think:

Successful Financial Planning = Lots of Money

This formula is inaccurate, shallow and misleading! What financial planning does equal is the ability of the planner to establish one-on-one alliances with their clients to create what we call the "*Concierge-CFO Relationship*." And the result of this alliance helps clients to free themselves from needless worry, to be appreciated for their talents, to be able to love unconditionally, to make a positive difference and to be fulfilled. The mission of a comprehensive financial planner is to help clients focus on the underlying issues that lead to satisfaction rather than to focus on "things" which never bring satisfaction. It doesn't take very long for the clients of a competent financial planner to understand that the best things in life are not "things" at all!

If a person was president of a thriving corporation with 1,000 employees, wouldn't that individual have a Chief Financial Officer (CFO) in the office just down the hall from theirs? And if that president wanted to expand sales offices, hire new people, build a plant or consider any other option for the growth and improvement of the business, wouldn't the president call in the CFO to give an opinion on the plans, to reflect on the implications of actions being considered and to generally partner with the president for the good of the company?

Well if this is so... this partnering of the CFO with the organization's leader... then why do so many successful people leave their offices and go home to a morass of personal affairs and fail to have their own CFO help with those matters, too? The real defining aspect of the true comprehensive financial planner is to do exactly that. We become the individual's CFO and change the focus from individual solutions to overall, long-term strategy.

For example, consider David, a young doctor that came to us for financial planning services. As a young professional, David wondered whether to participate in the retirement plan set up by the other partners in the practice in which he worked. Since the other partners had their own accounts under the plan, it was difficult to judge the plan's quality. We analyzed the practice's plan in the context of David's entire financial picture and helped him make the right decision. We also showed David how he could invest in an outside venture without putting up any cash. By guaranteeing a bank loan for the business, the doctor essentially invested only his reputation and good credit rating. If the business fails, he will be no worse off than had he made a cash investment. But if the endeavor succeeds, the return on David's investment will be incalculable. And the critical thing to note here is that the client did not need to buy anything!

The Initial Interview: The Process Begins

Our approach to achieving this intimate “Concierge-CFO Relationship” is simple. First, a potential client must have a personal visit with us. If the client is married, they must bring their spouse; we simply cannot counsel a married individual without their spouse. During this initial visit we listen to the client’s concerns which are typically descriptions of financial symptoms. Then we review some impartial information like tax returns and net-worth statements. It’s amazing what a planner can learn from just these two documents! What we’re looking for in this initial interview are clues to what the client needs to achieve their personal and financial goals and fulfill their dreams for future generations. We fully recognize that wealth presents its owners with a staggering array of opportunities and an equally perplexing maze of problems. The role of the financial planner is to help their clients maximize the former and minimize the latter.

To better understand the optimal relationship between a financial planner and his or her client, consider the scenario of the dynamite business couple: Chuck was a terrific salesman, Donna a talented marketer. Starting in their garage, they built an information technology company with many millions in annual sales and more than 100 employees. Like many entrepreneurs, Chuck and Donna grew to hate what their creation, with its multiple, overlapping levels of management and bureaucracy, had become. Because selling their company would create a huge capital gains tax liability, an insurance agent had suggested creating an irrevocable charitable trust. However, they felt uneasy about giving up control of everything they had worked so hard to accumulate. We asked: *Instead of selling the firm, why not fix it?* Using Carnick & Company as their consulting CFO, they did just that. Cutting staff by 40%, they made their company 25% more profitable and increased their own income 500% while dramatically improving benefits for their employees. In addition, we helped the couple form a charitable foundation to assure the continuation of their personal values for many, many years into the future. As for our concierge role, when it came time to buy a new home, Chuck and Donna turned to us to negotiate the deal with the property owner, obtain creative financing from banks and work with a host of other vendors to make their dream home one of the most unusual properties in the Southwest. When Chuck and Donna decided to purchase a second residence in the Midwestern town where they grew up, we again served to negotiate the deal, obtain the financing, arrange the closing and coordinate a thousand details in our role as CFO-Concierge to this dynamic business couple. To show you just how deeply involved we are, when private jet travel is needed, we make the arrangements; when wire transfers to fund large gift purchases are required, we execute the details; and when season tickets are needed for the Detroit Tigers, we find them. Truly, we are these clients’ Concierge-CFO!

At our initial meeting, we have no idea if or what a client needs to “buy.” The holistic, strategy driven approach... vis-à-vis the reactionary, product oriented approach... is what makes the true comprehensive financial planner different and able to offer the client an objective, goal-oriented approach to life planning success. As financial planners, it is our job to help clients conceptualize their dreams, temper those dreams with a dash of

realistic expectations born out of experience, identify obstacles to achieving those realistic expectations and monitor progress while being ready to adjust for unforeseen developments. Once we've reviewed the client's situation and dug way-down deep to see what inner motivations are at work, we can make a time-and-materials proposal to the client as to cost. This proposal typically outlines our understanding of the client's situation, the various entities involved (client, spouse's business, client's business, client's siblings, spouse's siblings, client's children, grand children, institutions and so on), the specific details of services to be provided, the costs and any potential obstacles that must be factored into our discussions.

Client Fees Based on Situational Complexity, Not Investment Assets

So, is the Comprehensive Financial Plan – and our firm's policy of providing 12 months of ongoing consultation on the plan strategy – going to cost \$1,000, \$10,000 or \$100,000? The answer is this: The amount of client assets doesn't determine the cost, rather, the complexity of the client's situation determines the time required. The financial planner essentially sells the client a block of his or her time. And that's all a good advisor has to sell – their time, their expertise and their cumulative experience. If the client then accepts the proposal, then it's time to move into the data gathering phase. After reviewing the data, we validate the accuracy. Sometimes a client will view details in one way and upon document review, we find that perceptions may be inaccurate. For instance, the client may indicate in our data collection workbook that they have \$10,000 per month of disability insurance, when in actuality, the amount is only \$7,500. Clearly, validating and cross checking data is very important! By the way, we offer all planning on a guaranteed basis; if the client doesn't like the final planning document, the client doesn't pay. This unwavering commitment to client satisfaction is common among the *crème de la crème* of the planning community.

Once the data is vetted for accuracy, we prepare the actual plan, which typically looks out 40 years and considers cash flows, budgets, insurance, investments, estate planning, taxes, retirement in any number of forms, community resources, family strategies for transfer of assets and values, business concerns and charitable inclinations. Most importantly, we look at each of these areas through a very specialized lens that is focused on the client's personality, overarching goals and individual concerns. In truth, there are no "absolute" right answers, only answers that work for a particular client's needs. And a comprehensive financial planning process like ours really drills down to great depth. For instance, in the area of insurance alone we look at homeowners, life, accident, health, disability, long-term care, auto, liability and business aspects. Thus, costs of financial planning are based strictly upon the complexity of a client's individual situation and the time embodied in devising a future-looking success strategy.

The Design Is Complete: The Building Strategy Begins

Once the financial plan is presented to the client... and for our firm, this plan presentation session requires at least three hours... the next step is the critical implementation phase. After the client has had time to digest the implications, our firm moves into the CFO mode to help the client consolidate, simplify and implement. We're there to convey the appropriate parts of our massive data base to bring the attorney up to speed with the client's situation as quickly as possible. We're there to review drafts of estate planning documents and to make sure the client really understands what they are being asked to sign. And in our family office mode, we're there to help the client's children and grandchildren understand the reasoning and implementation of the overall estate plan. We're there to coordinate with the insurance agents if there need to be changes in policy coverage. We're there to work with the client's bankers if measures need to be taken to reposition debt or shift liabilities. We're there to work with the client's accountants to make sure the flow of data is timely and the implications of strategies (either existing or newly implemented) are understood by all and there is unanimity of purpose. We're there to work with the clients' business partners, their spouses, and their children.

Our role is to breach the communication barriers that often arise in the realm of financial planning. For example, we once worked with an elderly couple who faced such issues – the authoritative nature which made Fred a successful professional created a major problem for his wife. When he developed health problems so serious that he could no longer manage their financial affairs, Alice was lost. She discovered that they had no will, no trusts, no estate planning. Records of substantial investments were scattered hither and yon. Management fees and other costs were enormous. Everything was in disarray. We created a comprehensive financial plan for Alice, consolidated the management of their dozens of statement into three accounts, and worked with their three grown children to help them understand their parent's financial affairs. When Fred died a few months later, his estate was in order and passed to his heirs with minimum tax consequences.

The bottom line in Fred and Alice's case, and in every financial situation, is that the *real* work begins after the actual financial plan is presented.

There are No Perfect Answers: Exploring The “What-Ifs”

We typically run multiple subsequent scenarios, additional “what ifs?” after the client has had the chance to digest the initial plan presentation. As is often the case, the client has never seen all of the various aspects of his personal, business, financial, community and family life integrated into a single matrix. When that matrix can be viewed in a single holistic context, clients begin to wonder: “*What if* I retire five years early,” “*What if* my spouse quits that lousy job that's caused so many scheduling problems in our life,” “*What if* I take that early retirement package and use the proceeds to buy a new business venture?”

And here is where the beauty of true, comprehensive financial planning really becomes obvious: Once all the data is collected... once the client's needs, wants, and desires have been identified, once all the potential risks have been charted, then we can model potential outcomes with various "*What if*" scenarios and show the client the potential implications of various courses of action. This aspect of the planner's services is very, very important. And what's more, this modeling aspect is where the client has to be most careful. If the financial planner is not highly experienced in business, personal and financial affairs, the client is likely to be led astray by modeling outcomes that are not realistic. How many times have I seen insurance policy illustrations showing humongous dollar values stretching out for 30 years because the agent blindly assumed that the exceptional performance of a short past period could be automatically extrapolated infinitely into the future? It takes a knowledgeable and experienced planner to protect the client from the unbridled optimism that typically has been the modus operandi of sales representatives since the dawn of recorded time, or at least since commissions were invested.

The Unemotional Professional: Analyzing Investment Strategies

Once the client has developed a good sense of where their planning efforts can take them, it's time to look at investing activities. The typical investor usually invests first and then asks "What are my investments supposed to do for me?" That's like an archer shooting the arrow before he knows where the target is. Clearly this doesn't make for a sensible approach to archery or investing! When we work with our planning clients to design their investing strategy, the first question is, "How much is enough?" In other words, what targeted return do you need to reach your goals? And since rates of return are directly and inextricably linked to risk – the greater the return, the higher potential for loss – why would any intelligent investor take more risk than necessary to reach their goals? Hundreds of times I've looked at troubled clients and asked, "If I could guarantee that you could reach every financial goal you desire by investing in bank CD's, would you do anything else?" And the answer is always, "No."

For example, two former clients, Tom and Sarah had always dreamed of opening a country bed-and-breakfast inn so they could simplify their busy lives and run a business together. Tom was a former high-ranking military officer with a successful second career in private industry. Sarah was a health care industry executive. They came to Carnick & Company for financial planning and to learn if they could make their dream come true. We pointed out that operating a bed-and-breakfast was unlikely to be any less hectic than their current situation. Then we showed Tom and Sarah how they could set up individual consulting businesses in their home, live wherever they wanted, work together and enjoy unprecedented freedom

The take-away here is that clients are universally afraid of risk and now that we're in the post 9/11 era, risk has a fresh, new meaning. So when we turn our attention to investment strategies, our approach is always a reflection of the underlying financial plan. Unlike the archer who shoots first and looks for the target after the arrow has left the

bow, the comprehensive financial planner designs the long term strategy, answers the difficult funding questions and then looks for the lowest risk rates of growth necessary to meet the client's needs. So does this approach always end up using bank CD's? Of course not, because along with managing risk is the need to employ sound stewardship in the managing of client assets. The key here isn't the advantages of bank CD's. Rather, the central issue is that only through the comprehensive financial planning process can the client begin to grasp the overall picture of their life and the inter-relatedness of all the formerly disconnected issues. A good financial planner connects the dots: The client of a good financial planner can then see the picture, adjust their expectations and sense the future outcome.

In reality, what preserves the partnership is the client's confidence that the planner is looking out for the client's best interests, listening to what the client is saying and serving as a trusted advisor in helping the client to reach well defined objectives. Who else has the tenacity to ask the client who they are, what they really want and what drives their lives? It is the skilled financial planner's responsibility to become the client's sounding board, confidant, coach and gate keeper. The best of client/planner relationships are not exemplified when the planner becomes the client's best friend. Instead, the most productive associations occur when planner becomes the go-to guy to make important things happen for the client, the client's loved ones and the client's surrounding community.

There Is No Destination – It's Always A Journey: Monitoring the Plan

Once we've established a relationship with a client, it's our hope that the planning retainer will be renewed year after year. After 26 years of practice, we're proud that we have many clients that have retained our firm for more than a quarter century! Our average client relationship is over 12 years. And frankly, I suspect this type of longevity is no different with any other firm that focuses on true, comprehensive financial planning. Once the client has tasted the rich flavor of what a Concierge-CFO relationship is like, they tend to become devoted to the process. Our clients conference with us no less than quarterly and most of our clients meet with us in person. But with clients across the country and overseas, sometimes telephone calls, e-mails and Federal Express have to stand in for face-to-face sessions. Regardless of the method, review and updating is critical. We need to know if client situations have changed. We need to monitor progress on projects. We need to measure the client's current emotional temperature to make sure we understand their typically changing situation. In a nutshell, we like to meet and stay in contact with clients as much as possible and appropriate because every client is different and most every client is constantly changing.

When we are asked to watch over investments, the CFO-Concierge situation gets some additional tweaking. From our experience, busy dedicated people don't have the time or inclination to watch over their own portfolios. Few people are cross-trained to understand the complexities of the securities market. Sure, it's easy to go online and buy 100 shares of XYZ. But it's infinitely harder to be able to do the nuts-and-bolts

fundamental research on a stock while watching the technical indicators of the broader markets. What our firm does, and what any good financial planner does, is to put the client in the chair to make the overall strategic decisions. Like architects, the client and financial planner work together to design the structure.

This is also true in the area of risk management, or insurance. While our firm... and most other fee-only planners... accept the responsibility of managing assets for clients, our firm does not sell any insurance products. Instead, we maintain exceptional expertise in this very complex area and stand ready to assist clients in analyzing proposals generated by outside insurance representatives. We sincerely believe this approach is most effective because of the outlandish commission incentives which have become the hallmark of the insurance industry, especially with life and annuity products. By remaining outside the commission structure of the insurance industry, the fee-only planner can remain objective. In truth, asset management has strategies, but no products. But life insurance marketing is all about products and the strategies that can be spun-up to sell those products.

Returning to the topic of asset management, the planner understands the client's goals and accepts responsibility for working reasonably to achieve these goals as a fiduciary. Once the commission conflicts have been wrung out of the picture by the planner managing the assets on a non-commission, fee basis, the client can sit back and use the quarterly reporting process to monitor progress, or lack thereof. Delegating portfolio responsibility to a non-commissioned professional through a non-conflicted brokerage firm that isn't making markets or pushing their own "inventory" of issues allows the client to have the best of both worlds. The planner knows the road map and runs the portfolio without conflicts of interest. The client monitors progress against the financial plan benchmarks and doesn't have to worry about the complexities of the securities markets.

This "complexity" is particularly prevalent in the bond markets where securities are traded on a very different basis from individual stocks bought through an exchange. And just like stocks, bonds require constant attention. But the attention to bonds takes on a more sinister look because one has to watch the instrument's current credit rating, financial developments that could impact the ability to pay, tax laws that could affect prices, and the changing trends in interest rates that often make bond prices just as volatile as stocks. Moreover, the lack of transparency in the bond markets prevents the kind of efficiency that is standard operating procedure for the large stock exchanges. So this ongoing monitoring really has two components:

- Constant flow of information between the planner and the client to make sure overall strategies are in concert with the reality of an ever-changing world. For example, the client anticipates a corporate merger that will eliminate his position in the next 12 months and terminate certain insurance benefits, specifically health coverage. How is a male aged 58 with heart trouble going to cover himself and his spouse until MediCare kicks in at age 65?

- The investment sub-set of financial planning requires an even more intensive monitoring to make sure the portfolio can be adjusted for changing market conditions. For example, in anticipation of increasing interest rates, it might be appropriate to sell bonds at a premium that have low yields and are maturing in the next 24 months to buy bonds with longer maturities... say out 5 to 7 years... to capture better yields.

Cookie-Cutter Treats Are For Kids; Clients Deserve Customized Options

When looking at the range of investment options available to clients, we have a definite way to view the choices. In considering all of them, the experienced financial planner should ask the following questions:

- *Have you maximized your number one personal investment opportunity?* The client should first and foremost look at this in a very personal way. If a doctor can run his practice more efficiently, this is the first place to make an investment of time and energy. If the owner of a manufacturing facility can increase profitability by implementing new technology, this is the best place to invest. And this is basically true of any situation. We often use the old adage, “Keep to your knitting.”

After your personal business efforts are maximized, then you can turn to other, non-business investments.

- *How much risk can you stand?* In the post 9-11 environment, clients are beginning to really look at this question in the harsh light of reality.
- *How actively do you want to be involved in the investment?* If the answer is “I don’t have a second to spare in my life,” then getting the client to look at a small strip mall he’d run as a second business venture is out of the question.
- *What are your social imperatives?* If the client hates the idea of lower income individuals being raped financially by check-cashing services, then investing in such business ventures will never fly no matter how profitable. A full wallet can fill an empty soul.
- *What are your time constraints?* If you’re going to retire in six months, a portfolio of aggressive growth stocks obviously could conflict with your need for steady, predictable income.

The truth is that investments break down into some pretty simple categories and the preceding list of questions will help the comprehensive financial planner to zero in on options that make sense for the particular client. Note that the focus here is on “customization.”

Do we like individual stocks? Sure we do! But individual stocks have to be bought right, held right and sold right. The idea of long-term buy-and-hold is no longer valid. So we like stocks but *only* in portfolios managed by professionals. All too often we've seen the error of individual clients managing their own portfolios. Few people have the research tools, the discipline, and the cool emotion to do what's necessary to manage a portfolio well. What we don't like is mutual funds. So you only have \$12,500 in your IRA? In this case, a few well selected, no-load mutual funds make sense. But once an investor gets over \$500,000, individual securities are the way to go if you engage the services of a professional portfolio manager.

Do we advise buying individual bonds? Indeed we do, but bonds are trickier to buy than stocks! I can call 10 brokers and get identical quotes on General Motors. But I can call the same 10 brokers for a quote on a particular bond and every price will be different. Why? Because most bonds, especially municipal bonds, are traded on a bid/ask market that is very inefficient and lacks real-time transparency. I can find out the last trade for GM in a flash. But it's almost impossible to find out about the last trade on a City of Cleveland muni-bond with a coupon of 5.375% maturing in 2014 with call provisions in 2010.

Bonds also require strategies. Do we ladder the bonds with various maturities? Do we target the bonds to yield a specific annual income stream? What about yield-to-maturity; What good is buying an 8% bond today that matures in 20 years if I have to pay way over the face value of the bond? Does it ever make sense to buy a \$10,000 bond for \$12,000? We also discourage the use of bond mutual funds, especially when the trend of interest rates is upward. There is nothing so depressing as the uninformed investor who looks at the past performance of a bond mutual fund – like so many are doing right now – and sees the great performance during a falling interest rate environment and then buys into the bond fund just before interest rates start to climb again. This is a time-proven recipe for disaster!

And yes, where appropriate we like real estate, too. Typically, real estate is not necessarily better than stocks and bonds – it's just different and sometimes does well when stocks are in a slump. But the problem with real estate is "how to buy it right." In our experience, the profit in real estate is made when the property is purchased. If a person pays too much for a property, they are unlikely ever to get much out of the deal. Sometimes, real estate requires active management. We have a client who retired, bought a small office building and spends two days a week watching the property, making small repairs and collecting rent; What a perfect arrangement! But for a busy surgeon, active management would be the last thing in the world the doctor would want! So when it comes to real estate, it's often a challenge to find the right role for the investor... active versus passive... and the right property from a financial standpoint. It's always about customizing investment options for each individual client. And remember, to get the best returns, real estate typically is leveraged with debt. In a hot market when prices are escalating every month, debt isn't a concern. But in a market slump, debt is a killer when vacancies increase. So, real estate *can* be a good investment but it too has its own set of risks.

Making The Transition: Restructuring for Retirement

In the ongoing relationship between the comprehensive financial planner and the client, reviewing and updating are constant, not occasional processes. Along the way, planner and client must continue to work together as real partners to develop a dynamic, flexible strategy to monitor events, markets and trends and implement changes. Long before a client approaches retirement, the goals of the financial plan must be reevaluated along with the guidelines for the investment portfolio. Of course, more and more of our clients are telling us they don't ever intend to retire! And that brings up its own set of financial planning considerations. But in general, as a client gets about seven to ten years out from retirement, the portfolio must be examined to determine if a transition in assets is called for.

For instance, the client with generous private and government pension benefits, a double-dipper in military parlance, might have all the income needed for support. Therefore, this person might keep the investment portfolio focused on long term growth for children and grandchildren. In the alternative, another person approaching retirement might have to depend 100% on their IRA assets, and therefore want to convert a portion of the portfolio to bonds in order to generate a "never-fail" stream of income. The answer here is that every client is different and the comprehensive financial planner must look at the client's needs, personality and risk tolerance to determine what transitions are appropriate as retirement looms.

Looking to Profit in the Long-Term

When we talk about a strategy with clients to profit in "the market," we generally stress these points:

- Adopt a reasonable set of goals within the context of the acceptable level of risk.
- Implement an investment strategy that reflects these goals.
- Have reasonable expectations.
- Monitor results and adjust for changes of circumstance.
- Stay focused on the goals and don't allow short-term market gyrations to force you into making structural changes.

What most investors don't realize is that there are many paths to achieving long-term success in the investment realm. We watch many professional managers who use various

approaches to the market. The determining factor isn't which investment is "the best." Rather, it's those professional managers who adopt a reasonable degree of discipline and stick to that approach for an extended period of time who typically succeed. If this approach works for the professionals, why shouldn't individuals think the same way?

Looking toward the future, we believe the operant word will be "volatility." Soon markets will operate 24 hours a day, 7 days a week. Soon, every street corner will sport an ATM that dispenses cash, stamps and portfolio management. When we see agents of State Farm Insurance offering investment advice... when we see web sites providing instant portfolio management... when we see book shelves at Borders filled with ways for Mr. Average to beat the market.... All these things tell us to expect more and more volatility. The only proactive response to this chaos is for individuals to be ever more vigilant about the importance of comprehensive financial planning and its ability to help them set reasonable goals, effectively monitor their results and make changes in a timely fashion.

Blueprints for *Comprehensive Financial Planning: Step by Step*

1. Seek a fee-only comprehensive financial planner who doesn't sell anything but impartial advice. If you do nothing more than have a conversation to explore your lifetime goals, it will be beneficial and most refreshing. Remember, lifetime success does not come packaged in a slick sales proposal to buy a product, no matter how flashy the home office skyscraper is!
2. Once you've identified a person that seems to make sense and seems to have simpatico with your goals, values and aspirations, ask that person to look at one or two specific aspects of your situation that concern you. Interview the financial planner about his or her views of your problem(s), potential solutions and overall strategy. This interview process works just as if you were going to hire that person as your employee. If the relationship works for the long term, that financial planner will actually become a partner in your future, and that's even more important than an employee!
3. Do not allow the planner to romance you with his or her accomplishments, awards or fancy office. Just keep focused on the interview strategy, ask lots of questions and draw out the planner as it relates to *your* situation, not the planner's situation. Ask the prospective planner these questions:
 - What does your typical client profile look like?
 - How do you get paid?

- How long have you been a planner? What did you do before becoming a planner? What are your qualifications for calling yourself a “financial planner?” How long have you been a Certified Financial Planner? Who will prepare my financial plan... you or someone at the home office 2,000 miles away?
 - Do you have other sources of income? If so, what are they?
 - What guarantees of satisfaction do you offer?
 - Have you ever been censured by any professional organization, ever been charged with anything other than a minor traffic violation?
 - Do you participate in any way or receive any compensation of any kind from any investment programs you may recommend to me?
 - How many clients do you have? If I become a client, will you handle me personally, or will I be transferred off to another person? If you get hit by a bus tomorrow, who will become responsible for serving my family’s needs?
 - Do you consider yourself to be a fiduciary in the way you render services to me? If not, how do you explain your reluctance to represent my best interests in the legally defined role of a fiduciary?
 - What do you know about asset protection strategies? What are your qualifications to discuss this important area and are you a part of the recognized community of asset protection professionals represented by the London based Offshore Institute?
4. If the interview goes well, ask the planner for a written proposal, a copy of the SEC required disclosure form and a list of references. Remember, nobody ever included a dissatisfied client in the referral list! So assume the clients are happy and focus on what kind of differences the planner made in their lives, what kind of service the planner provided, the level of responsiveness and how much trust the planner engendered. Make sure you understand the written proposal and have a firm grasp on the fees involved. Nobody likes surprises when it comes to hidden costs.
 5. Remember, a planning relationship requires hard work by the planner and initially, by the client, too, especially as all the relevant data is gathered.
 6. Be honest and totally open with the planner. A doctor can’t help you if you don’t disclose *all* your symptoms and *all* relevant facts. Likewise, a planner is

powerless to do a Vulcan Mind Meld and extract the information from your brain. Again, be prepared to do some serious work during the initial phase!

7. Insist on clarity! If the planner recommends a strategy and you don't understand the underlying assumptions, or just plain don't understand what's involved, insist that the planner explain the process well enough for you to be perfectly clear. Bottom line – if you don't understand it, don't do it!
8. Use the planner wisely. Remember, unless the planner is a graduate of the Mother Teresa School of Financial Planning, that individual needs to make a living, too. So make sure you understand the terms of the engagement with the planner and utilize their time fairly. What the planner charges for his or her services makes no difference; the only thing that matters is “Are you going to get value for what you pay?” Sure, some product sales organizations will do a financial plan for \$500, but how many hours of high-level professional work will \$500 buy?

I am reminded of all those ads in the Sunday comics section advertising “Lasik eye surgery for \$195 per eye for the first 100 people.” Perhaps you might be willing to be one of those first 100 people operated on for the discounted price, but not me!

Beyond The Typical: What Special Services Can A Client Expect?

As I travel around the country talking with many of my financial planning colleagues whom I've known for more than a quarter century, I never cease to be amazed by the constantly changing nature of our profession. Perhaps this should come as no surprise. After all, isn't our world changing daily before our eyes? It wasn't too many years ago that fax machines were the hottest aspect of office technology. Today, fax machines stand idle on counters while most serious communication and document transmittal is being done by encrypted e-mail from anywhere to anywhere in the blink of an eye. Twenty years ago, having a financial planning client on the other side of the Earth was unheard of. Today, our firm and many others like us service clients all over the country and around the globe.

By the way, we love the Colorado Springs community and our firm made a conscious decision to locate here 20 years ago. And it would appear that others share our feelings for this area, too. We know this because we typically invite prospective out-of-town clients to come in to The Springs for a working weekend, as our guest – and these people typically accept! Is it because they get a mini-vacation in one of America's sweet-spots? No, that's not the answer. What we have discovered, and I suspect this is true with other firms like ours, is that many times clients want to go out of town to keep their affairs as private as possible. Now does that mean it's a good idea for clients in New York to only deal with planners in California? Not necessarily; but in our experience, it does often make sense for intensely private individuals to recognize that choosing an advisor who

may be thousands of miles away is not really a problem – especially if the advisor is located in a place that has great skiing!

In any event, what is all-too-obvious to everyone today is that even with all these high-tech tools at our disposal, customer service has eroded in so many parts of our society. I believe many organizations have eagerly embraced the concept of abuse-tolerance management. In other words, many organizations that should have a central focus on customer service have instead determined just how much abuse their clients will tolerate as a result of poor service before the clients go over a threshold and revolt. Using this subtle, but cost effective abuse-tolerance formula has allowed organizations to implement everything from many-layered voice mail systems to internet-based customer service web sites to overseas call centers staffed by representatives who can only speak marginal English.

And in the process, our nation has become Wal-Mart-a-tized; we'll tolerate lousy service to get cheap prices and even accept poor quality along the way. Frankly, some people will accept absolutely anything to be able to say they saved a bunch of money.

- Value is out, price-focus is in.
- Customer service is out, automated systems are in.
- Taking responsibility for a customer's problems is out, passing the buck to someone else down the line is in.

Nowhere is this more apparent than in the area of financial services. Banks want customers to go to ATM machines, the internet, phone-in systems – anywhere but to seek a human in the bank lobby. In fact, for many customers, there are no bank lobbies anymore! Call your mutual fund to ask for help and you'll be forced to drill down 10 voice-mail levels to ultimately get put on hold and hear that insidious, vexing message, "Your call is important to us. Please stay on the line for the next customer service agent." Sure, the next customer service agent; what a joke!

So in a world where real customer service has become about as plentiful as good-will in the Middle East, individuals who seek the kind of deep personal relationship that is the hallmark of the best financial planning firms have to search the landscape very carefully. But once a customer-centric firm is identified, the results for those clients who don't want to descend to the depths of becoming Wal-Mart-a-tized is a true thing of beauty.

What services do the best financial planning firms offer? Here is the list we would consider important:

1. The best firms focus on comprehensive financial planning provided by highly experienced professionals. The best firms want clients to be assisted by a team of professionals but have a single person as the point of contact and responsibility. It's

hard to be a personal friend with a committee and the best firms establish lasting friendships with their clients!

2. The best firms offer asset management services on a non-commission basis to help their clients achieve their planning goals.
3. The best firms provide intergenerational family office services wherein they advise multiple generations and assist clients with some of the most difficult of lifetime decisions. These firms understand and are well experienced in dealing with charitable strategies, asset protection, incapacity, aging, senior care, special needs arrangements, just to name a few. And most importantly, the best planning firms are willing and able to be the “bad cop,” and say “no” to situations that don’t make sense or run counter to the client’s intentions. Sometimes, it’s easier for a stranger to say “no” to a loved one!
4. The best firms offer business consulting services to their clients. The planner won’t know how to manufacture a widget, but the firm will have expertise in discussing employee benefits, company financials, cash flows, selling/buying/merging entities and long range planning.
5. The best firms don’t keep 9-to-5, banker’s hours. These firms make themselves available 24 x 7 and are available for clients then emergencies arise. The best firms will take a client meeting at 6 in the morning or 10 at night. The best firms will call their clients when the client is available, not just when the planner is available. Now this is a critically important function that can’t be abused by the client; it must be used sparingly. But when it’s really needed, it should be available.
6. The best firms are not overloaded with clients. Yes, it may take 10 days to two weeks to get an initial appointment. But when you do arrive and take stock of one of these premiere financial planning firms, begin to talk with the people who have made the firm successful; you’ll discover that becoming a client of a quality organization makes you part of a very special, very fortunate group of people.

The founder and president of Carnick & Company, Craig Evans Carnick, CFP, has been providing sound financial counsel for over 25 years. Craig is a graduate of the College of Financial Planning in Denver, Colorado and received his Certified Financial Planner (CFP) designation in 1977. Craig's acumen is recognized even outside his profession and

he has been a frequent lecturer on financial matters. He has been quoted in national periodicals including Money, Worth, The Wall Street Journal, Black Entrepreneur, Physicians' News, USA Today, Financial Planning and Barron's. Craig has also appeared on numerous radio and television segments addressing financial issues. Craig is also a fellow of the London based, Offshore Institute.

Craig has been chosen by Worth magazine in its annual listing of The Best Financial Advisors in America seven consecutive times. And in every publication of their listing of The 150 Best Financial Advisors For Doctors, Medical Economics has recognized Craig's expertise in his field.

Craig is married 35 years to his high school sweetheart, Judy, and they have a daughter, Lindsey Anne, a PhD student at Purdue. In addition to sharing a love of horses with the two women in his life, Craig is a jazz aficionado (especially Johnny Hodges), a skilled photographer and an expert PADI dive master who wishes he could spend more time in the warm waters of the southern latitudes. In November of 2004 Craig will join a dive expedition from Fathoms Magazine for a unique photographic trip to Papua, New Guinea. More information can be found at [www. Carnick.com](http://www.Carnick.com) and Craig would be happy to answer any questions sent to Craig@Carnick.com.

The logo for Carnick & Company features a large, stylized ampersand (&) on the left, followed by the word "CARNICK" in a bold, blue, serif font. Below "CARNICK" is the word "COMPANY" in a smaller, blue, serif font.

PERSONAL FINANCIAL ADVISORS