What is Comprehensive Wealth Management?

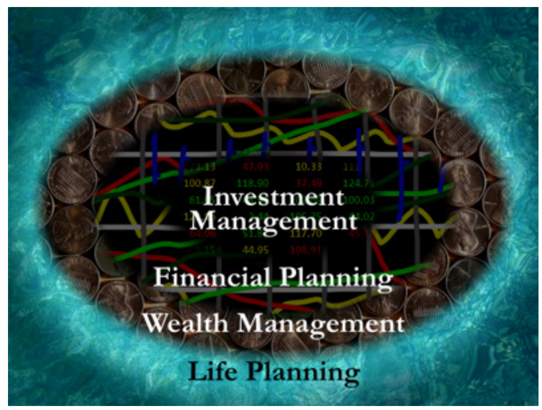
by David John Marotta

The world of financial services is built mostly around products and services. So it is often difficult for families to understand the concept of comprehensive wealth management.

Advisors who offer comprehensive wealth management are like financial concierges. Their only goal is to meet your needs. If you ask for fresh strawberries, they try to find them for you. And then they ask if you would like dipping chocolate or fresh cream to go with them.

The job of fiduciary wealth managers is to do what you would do if you had their time and expertise. First, they get to know you. Then they service your requests. And lastly they learn to anticipate your needs. The four practical areas involved are investment management, financial planning, wealth management and life planning.

Investment management lies at the core of wealth management. Two weeks ago I described some ways that fee-only financial advisors might earn their fee on investment management alone. If they do, all of the other services they provide are at no additional expense to their clients.



If investment advisors earn their fee multiple times on investment management alone, you might think that's where the most value lies. But I believe comprehensive wealth management offers the greater value. Although harder to quantify, it is what connects your investments to your life goals.

We do not charge hourly for these services. If we did, clients might not use them. Most of our clients are cautious supersavers. They struggle to spend money even when they should. Because their fee includes these services, they're encouraged to call us anytime with their financial concerns.

Surrounding investment management is financial planning, which can range from college planning to retirement. Long-range financial planning turns on a host of assumptions, variables and random market noise. Much of financial planning is trying to ensure the money will be there when you need it. And in that process nothing is certain.

Even if you put all of your money into FDIC-insured investments, you can't guarantee its purchasing power in retirement. Investing mostly in bonds or insured products may mean a lesser lifestyle later on.

Retirement planning consists of a wild scatter plot of potential projections. Navigating successfully through possible outcomes requires regular adjustments. Without constant course corrections, financial planning is like walking blindfold across an open field. The chance of random success is small. And the calculations are not easily done on the back of a napkin.

During your accumulation phase, you must save enough to reach your retirement goals. For every decade you delay saving and investing, you cut your retirement lifestyle by more than half. A financial planner can help you calculate how much to save and help you actually do it.

Wealth management is based on the idea that very small changes can yield enormous gains in your family's finances. And no gain is more valuable than the engine of saving and investing. A financial coach can help automate the process of paying yourself first.

Monitoring your progress might involve computing your net worth once a year to see if you are on track or ahead of schedule. It might also include deciding how to handle bonuses, inheritance or other windfalls. Surprisingly, studies show that onetime windfalls can actually impoverish you. They make you feel rich, which inevitably leads to overspending. But wealth is what you save, not what you spend.

In retirement, monitoring becomes even more important. You can no longer adjust your savings rate, only your spending rate. Some clients are too frugal and never enjoy the full amount they could have spent during retirement. Others spend too much and risk running out of money before they die. Neither is desirable.

Perhaps the most dangerous back-of-the-napkin calculation retirees make is to assume they can safely spend the income and thus refrain from touching the principal. Rather than conservative, this strategy may actually lead to overspending. Even if their dollars stay constant, they will lose their buying power to inflation each year.

Knowing your safe spending rate and staying within it is critical. Prudent retirees skimp to stay well under it. But knowing exactly what it is may help them spend a little extra money on a long-imagined trip, for example. And they will be able to do it with greater peace of mind.

Surrounding financial planning is actual wealth management. Perhaps you have enough money that you don't need financial planning. But if you have wealth, you need to steward it properly. It should be put to good use. It should be invested prudently. And it should be monitored regularly.

Wealth management includes the specialties of both tax planning and estate planning. And although comprehensive financial planners are neither CPAs nor estate planning attorneys, they need to be familiar with both disciplines. Comprehensive wealth managers are like primary care physicians. Sometimes they need to refer patients to a specialist. But they must understand when to refer and then how to implement any recommendations.

To build real wealth, you need specific wealth management tools. One of these is opening the right accounts and using them correctly. The multiple types of investment accounts range from health savings accounts to Roth segregation accounts.

Wealth managers can execute a Roth conversion and figure out how much to convert, how to keep the assets segregated into different accounts and when to recharacterize some of those investments and undo part or all of the conversion.

Wealth managers can help you with IRA required minimum distributions. They advise which accounts to take money from first and how much to take each year. They can sort through the intricacies of maximizing Social Security benefits.

Wealth managers provide philanthropic planning, such as using appreciated assets for charitable giving. This strategy saves paying capital gains taxes and allows you to give more generously. They can also sell assets with significant losses so you can take the loss on your taxes.

Wealth managers can advise you about the investment in your house, deciding whether you should pay off your mortgage and when and under what terms you might refinance. They can help you review all your insurance needs from life insurance to umbrella coverage.

Wealth managers can also implement estate planning. They can help make sure titling and beneficiary designations are correct. And they can advise you about using Roth conversions efficiently to pass wealth systematically to the next generation.

In addition to all these financial concerns are your life goals. Every family wants to align their money and their values. Life planning efforts involve encouraging clients to keep active and work toward significant goals in retirement. And it includes asking them to think about the tough meaning-of-life questions.

Most families realize they need an advisor who is an expert in multiple areas of finance. Many financial advisors claim to offer such services. But the real challenge is to work on the whole package, which is the true calling of comprehensive wealth managers.

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