Motley Fool Rule Your Retirement™

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With
Robert Brokamp
Advisor

Inside

Model Portfolios' Returns

More Than 10 Years From Retirement	Return
Active All-Stars	10.7%
All Index	10.3%
Benchmark	10.0%

Within 10 Years of Retirement	Return
Active All-Stars	8.4%
All-Index	8.5%
Benchmark	8.0%

In Retirement	Return
Active All-Stars	7.7%
All-Index	7.1%
Benchmark	6.3%

Returns since 9/1/09 inception.

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Dear Fellow Fools,

Did you take care of your MIT this morning? No, it's not the latest protein drink or some bendy yoga stretch. It's your Most Important Task. Leo Babauta, who writes the *Zen Habits* productivity blog, says "your MIT is the task you most want or need to get done today." He does his first thing every morning, right after he has a glass of water to help wake him up.

Now, I'm more of a coffee guy, but I do like Babauta's basic idea. He gets to work as soon as he wakes up, accomplishing something important before work and family take over, before he's tempted by the distractions of email, blogs, Facebook, Twitter, YouTube, Hulu, or ScroobleNutz. (OK, there's no such thing as ScroobleNutz, but it's only a matter of time.)

You told us during our 2009 Year of Fiscal Fitness that it's hard to find time to manage your money. Yet making a deliberate, willful choice to get your financial MIT done every day can be a powerful force in shaping your financial future. In fact, it might be your best — and only — defense, seeing as doing stuff that doesn't have an immediate payoff just isn't in our human nature.

In an article called "Human Decision-Making: A Scary Thing," psychiatrist Jim Phelps writes: "We pay most attention to the risks that are right in front of us. Risks that won't appear until later, even if they are huge, just don't get to us the way a risk we face right now does…. Worse yet, solutions with immediate strong benefits strike us as much more attractive than solutions with less immediate results — even if those benefits will be many times greater later! Buy a new TV now instead of investing and letting that money compound interest."

So how can we beat our brains? Start by breaking down your financial goals into manageable tasks — small ones that you can accomplish in a relatively short time, so you can see immediate benefits. And you've already started! Yes, Fools, I'm talking about Your Financial GPS, your written financial plan that will serve as your roadmap to retirement. This is our second month working on your plan together, and this month you'll be laying out your goals. If you didn't finish our first step, which was to create your cash flow and net worth statements, don't be too hard on yourself — but do get to work at FinancialGPS.fool.com. After all, creating those documents is the first step on your road to financial independence.

If you want even more help getting your financial MITs done, consider enlisting the expertise of a professional. We feature insights from 18 of them this month in a special two-page Expert Corner. All of these guest gurus are members of the Garrett Planning Network, a group of fee-only financial advisors — the only kind I'd use. In fact, the Garrett Planning Network and The Motley Fool have teamed up to highlight the value of fee-only, independent financial advice. For a limited time, Fools can get a 10% discount at participating Garrett advisors. See the Get It Done This Month feature on page 8 for more information.

But regardless of whether you meet with an advisor or choose to fly solo, you need a financial plan — something that shows you where you are, where you want to be, and what you need to do to get there. We'll keep working on that together, step by step, as you create Your Financial GPS. It's one of your life's MITs.

Robert Brokamp

Expert Corner: How the Pros Create Financial Plans

When you're hung up on a financial planning problem like a case of the hiccups, we hope you turn to the knowledgeable Fools on the *RYR* discussion boards for help. But if you want more personal attention, a fee-only financial planner might be right for you. I asked several advisors in the Garrett Planning Network how they create financial plans for their clients. Their insights can help as you create yours — whether you're going it alone or are considering hiring some help.

Robert Brokamp: **What's the value of having a written financial plan?**

"Putting a plan in writing helps you distinguish between your needs, wants, and desires. You can then make your needs a priority. A clearer view helps you develop specific goals. Once those goals are in writing, you can regularly track the progress you are making toward reaching those goals. Realizing that you are moving closer to reaching your goals is a great motivator to keep going."

— Kirk Hobart, CFP, Hickory, N.C.

"There is a saying in many compliance-driven organizations along the lines of 'If it isn't documented, it didn't happen.' I find a written financial plan, which typically includes a one-page list of action items, helps to make sure the identified steps to improve one's financial security are more likely to be taken."

— Tom Nowak, CFP, Grayslake, Ill.

"When you do a written financial plan, you have to address areas you don't necessarily think about every day, or that you're not necessarily 'good' at. For example, maybe you have plenty of free cash flow, no debt, and are very comfortable … so life is good. A written plan helps you consider whether you might need to save some of that extra cash for some of those large expenditures that we all have — replacing the car, fixing something in the house, etc. Another value of the written plan is critical to those who manage funds with another person. The written plan forces you to have those discussions that you may not want to have."

— Cheryl Krueger, Schaumburg, Ill.

RB: Now that we're all trying to stave off hand cramps from writing so much, what's next? Do you recommend your clients create a budget or cash flow statement?

"Absolutely. The word 'budget' certainly has negative connotations for many people. Budgeting is generally considered tedious and implies sacrifice. I try to emphasize that knowledge is power, and a thorough understanding of your spending habits and entire cash flow situation is a very valuable tool. We base financial plans on many assumptions — we have to estimate things that are largely beyond our control. Developing a budget gives us more control and can eliminate much of the uncertainty in a financial plan."

— Garry Good, Bloomington, Ill.

"The dreaded 'b' word. Yes, everyone should have some sort of budget, but it doesn't have to be elaborate or followed to the absolute penny. People tend to look at a budget as a ball and chain. In fact, it's a great mechanism for ensuring their goals and dreams are achieved. If you plan and budget, you can make sure money is set aside for what you truly value."

— Kevin Sale, Chartered Financial Consultant, CFP, Bloomington, Minn.

"I prefer the term 'spending plan.' ... It need not contain the minutia of every penny, but clients do need to know both what they spend money on, how they spend money, when money is needed to be spent, and why it is spent. Often, when moving into retirement, significant changes in needs occur and it takes time to adjust to new spending patterns."

— Mary Lacey Gibson, CFP, San Juan Bautista, Calif.

"As part of the initial preparation, I ask the prospective client to complete a cash flow questionnaire, in addition to the financial planning questionnaire. The preparation of the cash flow statement will generally elicit a comment such as 'I didn't know we were spending that much!' or 'Wow, that really helped me get our expenses organized.' Those little expenses can really eat away at your budget or nest egg."

— Kathleen Campbell, Ft. Myers, Fla.

RB: What should we do after we create our budget and cash flow statements? Can you let us in on some of the recommendations you usually give your clients?

"You need to envision your future so you can adequately plan for it. Most clients have only a vague idea of what they want. You can't determine how much you need in the future if you don't have some idea what it is going to look like."

— Randy Christensen, CFP, Nipomo, Calif.

"My most common recommendations are getting estate planning documents completed or updated, adjusting savings amount or the kinds of accounts being used for savings, and reallocating investments to increase diversification, reduce cost, improve projected returns, and/or adjust risk level."

— Jean Keener, Chartered Retirement Planning Counselor and Certified Financial Divorce Practitioner, Keller, Texas

"Plan! Even if it's only for your tax return next year, plan! For those who don't plan much, get someone you can trust to care enough about your future goals to help you. Plan for your next car, house, career (new view of retirement, anyone?). And, in case you want a recommendation of what you should do now: Plan!"

— Josh Giminez, Enrolled Retirement Plan Agent, Columbus, Ohio

"Get estate documents done, save more for retirement, get umbrella liability insurance and disability insurance, increase auto and home deductibles, increase term life insurance, create and follow a personal investment policy statement, and use index funds."

— Steve Juetten, CFP, Bellevue, Wash.

RB: Are there any financial planning faux pas?

"Some people unintentionally hold portfolios that are over- or under-weighted in key areas. They think they're diversified by holding a slew of mutual funds only to find the underlying holdings are duplicated. As an example, I recently worked on an asset allocation recommendation for a client who had nine actively managed funds to choose from inside a 401(k). The problem was that many of the funds held assets across various asset classes. One fund, categorized as a U.S. small-cap fund, held only about 60% in domestic small caps, with about 8% in cash and the rest in mid caps (even some large caps), with a sprinkling of international stocks. Since these are actively managed, these allocations are only what were recently reported. The fund managers may have shifted their holdings since the last report. The bottom line is, when you try to put a bunch of actively managed funds together in a portfolio, it can be quite tricky to get a decently diversified allocation. In these cases, you need to keep a closer eye on style shifts in the underlying holdings and not assume the fund name tells it all."

— Mary Deshong-Kinkelaar, CFP, Chicago, Ill.

"Clients approaching retirement make four common mistakes: Not planning for increased health-care costs; not giving enough thought to how they will spend their time once they no longer have a job; waiting too long to buy long-term care insurance, till it is too expensive or they become uninsurable; and not tracking spending while they're still working, so they don't know how much they need in retirement."

— Celia Brugge, Memphis, Tenn.

"No methodical approach to how their portfolio is constructed and this is because very few people actually integrate their financial/life plan with their portfolio! They have their life over here … and their portfolio over there ... and it is happenstance if the two actually meet and connect at any point in time. In the end, they often make their way to me because they feel defeated. They have been sold investment products instead of receiving valuable solutions and advice as to how to integrate all the responsibilities they carry over their lifetime."

— Katie Birmingham Weigel, CFP, Boston, Mass.

"Clients often have too many investment accounts of all types, e.g., several retirement accounts from old employers, several taxable accounts, IRAs held with different custodians. This makes it difficult to allocate and then rebalance a portfolio, and makes it difficult to really understand where the risks and redundancies are."

— Lydia Palmin, CFP, Oakland, Calif.

RB: And now for the investing question of the hour. Do you think "buy and hold" is dead?

"In my opinion, holding investments is basically the decision to 're-buy' them without transaction costs. 'Buy and hold' without reviewing has never been a good strategy. Carefully determining an asset allocation, selecting investments, disciplined review and rebalancing are components of sound money management strategies. It amazes me that individuals who maintain their homes impeccably never think to maintain their portfolios."

— Leisa Brown Aiken, CFP, CPA, Chicago, Ill.

"If buy and hold were actually dead, all of investing would be dead. Here's why. Let's divide all investors into two teams: those who buy and hold and those who don't. Since the traders are merely trading among themselves, this team continues to hold all of the traded investments they started with. Both teams will participate in the growth of their investments in exactly the same way. Some individual traders will come out ahead of others, but that's only because other traders came out behind. It's the losing traders' money that goes to the winning traders. Collectively, trading cannot beat out buy-and-hold investing. In fact, because additional trading increases investing costs, the traders eventually lose to the buy-and-hold team. So, if buy and hold is dead, the alternative is deader."

— Dylan Ross, CFP, East Windsor, N.J.

"I am not even sure what people mean by buy and hold anymore. If they mean buy and hold a specific stock without consistently revisiting its story and valuation — well, that should never have even been a viable notion. If they mean sticking with a specific asset allocation strategy by methodically reviewing and rebalancing even during times of stagnancy or distress ... yes, it's alive and well."

— Derek Kennedy, CFP, Knoxville, Tenn.

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