

## John Clair

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**Sent:** Tuesday, April 26, 2011 1:27 PM  
**To:** jclair@leahyandclair.com  
**Subject:** Walking the Tightrope - Leahy & Clair eNews, May '11

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Dear Friends,

Happy spring to everyone (even though it already feels like summer in Virginia)! Thanks for taking time to read this month's newsletter. This month's highlights are:

**What do you think of the new CFP public awareness campaign?** Haven't seen it yet? Click here to [Read More](#).



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**We've all heard the ubiquitous term "risk tolerance" used in investment situations.** But what are the risks that *need* to be taken - and how is the best way to approach them? [Read More](#)

**Ever consulted *Consumer Reports* magazine to help with a major purchase?** Check out their recent evaluation on the world of financial advice...[Read More](#)

And finally this month, a quote that sums up why retirement planning is so important: *it's okay to die broke, but you don't want to live broke.* - Anon

Have a great month everyone!

May 2011

### In This Issue

[Educating the Public on Financial Planning](#)

[Risks Worth Taking](#)

[Consumer Reports on Financial Advisors](#)

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### Did You Know?



**52%...**Percentage of American adults who own investments - at least \$5,000 in stocks, bonds or mutual funds. (1)

**56%...**Percentage of individual investors who feel more regulation of financial institutions is needed. (1)

**46%...**Percentage of individuals who say their trust in the financial services industry has declined since last year. (1)

**30 million...**Approximate number of American households that either have no bank account or rely on more expensive alternatives to traditional

**\$93 million...**Amount in Treasury checks fraudulently endorsed and cashed in 2010. (1)

Source:

1. *Journal of Financial Planning*, April 2011

## Seen the New CFP Spots on TV? "Let's Make a Plan" Hits the Airwaves



Brought to you by the same creative firm that gave us "Flo, the quirky insurance cashier lady" from Progressive Insurance, the Certified Financial Planner Board of Standards launched its first public awareness campaign to raise awareness about what "financial planning" really means - and the increasing demand for competent and ethical professionals to serve the booming needs of the general public.

"People are pulled in so many different directions when it comes to their finances, but a CFP professional is uniquely qualified to pull all the pieces together and provide a comprehensive evaluation that looks at the whole picture of a person's financial life," said Charles Moran, CFP 2011 Chair of the CFP Board's Board of Directors.

"The CFP mark truly serves as the gold standard for personal financial planning," said CFP Board CEO Kevin R. Keller. "Just about anyone can use the term 'financial planner.' But only those individuals who have passed a rigorous set of criteria and meet our strict ethical qualifications can call themselves a CFP professional."

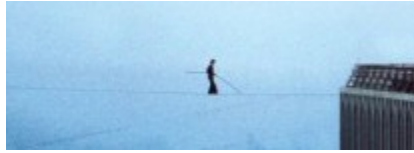
Consumers who view their financial situation as complex and management of their finances as time consuming often struggle to find the right person to help. If this public awareness campaign can help connect these people with honest and ethical help, then it has served its intended purpose.

Check out [www.letsmakeaplan.org](http://www.letsmakeaplan.org) or click below to see the TV spot:



**The Risks Worth Taking**  
If There Was No Risk, There Would Be No Return

*Balancing risk can be like walking a tightrope for individual investors. Here's a good article from our friend Jim Parker, Vice President of DFA Australia Limited:*



Philippe Petit, 1974

A wise man once said that to profit without risk and to experience life without danger is as impossible as it is to live without being born. That all may be true, but which risks are worth taking and which are not?

The fact is even the most self-declared risk-averse people take risks every day. There are routine tasks to our safety in crossing the road, in riding public transport, in exercising at the gym, in choosing lunch and in using electrical equipment.

Then there are the "big decisions" like selecting a degree course, choosing a career, finding a life partner, buying a house and having children. These are all risky decisions, all uncertain, all involving an element of fate.

In making these decisions, we seek to ameliorate risk by carefully weighing up alternatives, researching the market, judging possible consequences and balancing what feels right emotionally and intellectually, both in the short term and in the long.

Sometimes, we ask an independent outsider to guide us in making our decision. They do this by providing an objective assessment of the potential risks and rewards of various alternatives, by taking a holistic view of our circumstances and by keeping us free of distraction and focused on our original goals.

In investment, this is the value that a good financial advisor can bring - not only in understanding risk and return and how to build a portfolio but in knowing the specific needs, circumstances and aspirations of his or her individual client.

Quite simply, many people who invest without the help of an advisor take risks they do not need to take. They gamble on individual stocks, they rely on forecasts, they chase past returns, they fail to rebalance their portfolios to take account of changing risks and they run up unnecessary costs and tax liabilities.



To use an analogy, this is like trying to cross an eight-lane highway in the face of heavy traffic when there is a pedestrian bridge a little way down the road. You may well get to your destination safely through traffic, but it will be despite your actions rather than because of them.

Understanding risk in

investment begins with accepting that the market itself has already done a lot of the worrying for you. Markets are highly competitive, which means that new information is quickly built into prices. Instead of trying to second guess the market, you work with it and take the rewards that are on offer.

Your biggest investment is in spending time with an advisor building a diversified portfolio designed to meet your long-term requirements, then meeting them periodically as your needs change and to ensure you are still on course. In considering all of this, it is important to understand that risk can never be totally eliminated. If there were no risk, there would be no return. But your chances of a good outcome are far greater if you use the accumulated knowledge of financial science and the guiding hand of an advisor who knows you.

To sum up, risk and return are related. But not all risks are worth taking. The process of working this out starts with not trying to do it all alone.

## Consumer Reports on Financial Advisors When Might It Be Worth Consulting a Pro?



If you're like me, you probably research certain products before you buy them - especially larger purchases. Also, if you're like me, you've used *Consumer Reports* as a resource to help make the right choice. So when they gave their latest advice *on* financial advice, we were all ears.



You can read the [full article here](#) - or for a summary, read below:



If you need professional help with your finances, we've long recommended using a fee-only financial planner to avoid conflicts of interest. If an advisor is paid through sales commissions, it's hard to be sure he or she is choosing financial products that are best for you. Paying a fee that's not tied to a sale can reduce potential conflicts.

So what type of issues, can a financial planner help with? Here are a few:

### Help you control your spending?

You could pay a planner to get down in the weeds with you to work out a budget, but it may not be cost-effective. Recommendations on how to be more efficient with what you have coming in by reviewing what you're spending on insurance, your mortgage and car loans can be expected as part of the overall financial plan. You need to control the day-to-day spending.

**Figure your net worth?**

Establishing the total amount of a client's assets - including retirement and savings accounts, real estate and other property, minus loans and other debt is a key aspect of financial planning. You can't plan what to do until you know what you have.

**Advise on 401(k) investments?**

A planner should consider all your assets and expected income - employer-based retirement accounts, IRA's, savings, real estate, pensions, and Social Security, for instance - and help you establish savings goals. That could include advice on how to allocate the investments within your 401(k) to coordinate with your other investments.

**Help invest a lump sum?**

Investment advice is a core activity of planners. Ideally that's done in a tax-efficient way and with low investment costs.

**Determine if you're properly insured?**

A planner can evaluate your life insurance needs and advise you on finding the lowest cost coverage. A good planner should also be able to walk you through long-term-care insurance options and analyze whether such coverage is necessary, and review your auto, homeowners and umbrella coverage.

**Assess if you've got enough to retire?**

Planners can run the numbers and tell you if you're on track. If you aren't, they can help you explore other options, such as working longer, working part-time in retirement, moving somewhere less expensive, or otherwise changing your lifestyle. A planner can also help determine the cost over time of meeting other goals, such as going back to school, moving near the grandchildren, or traveling.

**Coordinate your retirement income?**

Planners can help you determine when to collect from pensions, traditional IRA's, Roth IRA's, Social Security, and other income sources - and how much to take. The process, when done right, should help minimize income, capital gains, estate, and other types of tax.

In the end, a planner should not only help you with the items above, but should also travel the road with you to ensure you successfully reach your destination - as helping you maintain discipline is probably the most underrated aspect of the planning relationship.



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