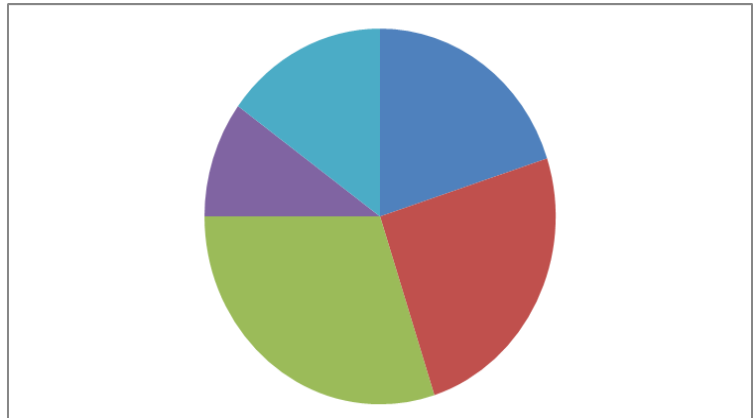


It Is As Easy As Pie . . . Not!



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There are many times that I come across someone who has a misunderstanding of what a comprehensive financial plan is. Sometimes clients are presented with an asset allocation showing how much they should invest in different areas of the market. Other times they are given a hypothetical illustration for some investment or variable annuity that shows what would have happened if they would have invested 10 years ago into a particular product or mix of investments. Many people confuse this presentation with a comprehensive financial plan.

The CERTIFIED FINANCIAL PLANNER™ Board of Standards Inc. uses a six step process called the financial planning process. The first step is defining the scope of the client-planner relationship. This explains how the planner engages with their clients and their areas of skill. The second step is to gather information about the client's financial status and goals. This is followed by step three, where an analysis and evaluation is conducted by the planner regarding the client's financial situation. Step four is developing and presenting the financial plan to the client. Step five is the implementation of the planning recommendations by the client and planner. Step six is monitoring the plan and updating it. This is a never ending process because everyone's life continues to change along with the economic world we live in.

If this sounds like a lot of work instead of just showing someone a pie chart, it's because it is. Making a recommendation without considering a client's cash flow and liquidity needs is not a

recipe for success. Ignoring family dynamics, health issues, estate planning, and special family situations do not fulfill the client's family goals.

Risk tolerance is someone's appetite or lack of appetite for taking on investment risk. A family with a wide range of financial responsibilities, which includes dependents, that is employed in an industry that is very unstable cannot assume the same amount of risk that a single person in their peak earning years without any dependents can. Even if the pie chart looks great, it may not fit the family's ability to assume risk with all those dependents. The investment recommendations should be dictated by the plan, not the opposite. Which came first the chicken or the egg? I believe the plan should always precede the investment recommendation, not the reverse.

One of the purposes of investing is to fulfill the client's family goals and desires. A primary purpose of investing is to grow your capital and keep up with the cost of living. So your plan should consider your cash flow needs as well as the possibility of you not making it to retirement. For example, if your parents are likely to become a financial responsibility to you, this will also become an important consideration to make when constructing your financial plan.

Integrating a comprehensive plan that states your family's vision of financial independence with a diversified portfolio that takes into account your liquidity, income, and appetite for risk, and your ability to take on risk is an important key. Ignoring any of these items and going straight to the investment recommendation is just a pie. It is as easy as pie . . . not!

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