

OCTOBER 2021 WEBINAR

Financial Planning 101

TAKEAWAYS FROM OUR RECENT "FINANCIAL PLANNING 101" WEBINAR

Many of us were taught from a young age that we need to start saving for retirement as early as possible. But what does that really mean? There are many factors that contribute to the exact amount you need to have saved by the time you retire. Perhaps the most important thing to consider: What do you want to do when you retire? Do you want to live on a beach in Hawaii? Do you want to travel the world? Do you want to buy a second home? These are important questions to ask yourself when financial planning because knowing where you want to end helps you prepare a financial plan for getting there.

Our goal as financial professionals is to make sure that your finances support your goals in life, which is why our CEO, Michael Lee, and Financial Advisor in our Scottsdale office, Evan Hartstein, teamed up for our live webinar: Financial Planning 101 to answer all your financial planning questions earlier this month. In case you missed it, here are some of our key takeaways from it.

DEFINING THE PURPOSE OF FINANCIAL PLANNING

What a 22-year-old needs and wants is very different from what someone in their 60s needs and wants, but with financial planning, you need to consider what the common purpose is to achieve your goals later in life. The purpose of financial planning is to ensure you have the funds to achieve everything you want to once retired. But first, you need to ask yourself some important questions: Why is money important to you? What do you care about? What else is important to you? Once you have the answer to these questions, you can begin your financial planning process, starting with a budget.

THE BIASES OF A FINANCIAL PLAN

Type in "how to start financial planning" on Google and the results are endless. Sifting through the results, you'll find sources telling you different things—it's easy to get overwhelmed.

Let's simplify the process. At the basic core of financial planning is budgeting. Evan stressed the importance of having an awareness of where your money is going to proceed to the next step of financial planning. Once you have an understanding of your budget, you'll want to turn your focus on protecting your money and those around you who rely on it—oftentimes, this comes in the form of some type of insurance solution. You will eventually need tax planning and estate planning further down the road. These are the building blocks that make up your financial plan,

but having these in order is not enough; investing your money in the stock market traditionally has helped people grow money overtime at a rate much faster than any savings account or CD will provide.

Evan noted that your financial plan should be a reflection of your life every step of the way, and if there's one thing we all know, it's that life is not linear. Plans change, so make sure to always update your financial plan when you have a big life event.

NAVIGATING THE STOCK MARKET

During the webinar, a questionnaire was sent to the audience to guess what stock listed on the screen was the best performing in the past year. The options were:

1. Zoom
2. Tesla
3. Ford
4. Macy's
5. Avis

An overwhelming majority of participants answered Zoom thinking it was a smart guess due to the popularity of the video conference software during the pandemic. While Zoom did hit record high numbers in 2020, it has fallen ever since in 2021. To many participants' surprise, the best performing stock was actually Avis. Here they are in order:

1. Avis (up 345%)
2. Macy's (up 141%)
3. Ford (up 82%)
4. Tesla (up 23%)
5. Zoom (down 18%)

This exercise was an important learning lesson for many participants—you can't predict the stock market. Just because a company is performing well one year doesn't mean they're going to in the next. The best and safest option when investing in the stock market is to think long-term and invest in the broad market rather than taking a gamble on a risky investment.

WHAT ABOUT FEES?

WHERE SHOULD INVESTORS BE WORRIED ABOUT FEES?

People tend to get hyperfocused on fees. While you do always want to be aware of the fees that you are paying, fees are relative and can pay themselves off in many cases. You need to take fees into consideration before building out your financial portfolio because you will likely be paying advisor fees plus fees within your portfolio.

EVALUATING BITCOIN, CRYPTO AND NFTS

While these garner a lot of headlines, they are highly speculative investments. You can potentially “win big” on these when they go up, but they are much more volatile than more traditional investments. There’s nothing wrong with putting some of your money into something you genuinely believe will succeed, but the problem comes when people put all their retirement savings into the crypto space. That’s like putting all your money into one stock—you typically should never do that. The goal is to have a diverse portfolio so when some of your stocks are not performing well you don’t have to worry because you have investments in stable stocks to fall back on. Always remember that it’s easy to convince yourself that a risky investment is going to pay off, but the reality is that you just never know.

UNDERSTANDING INVESTING BIASES

Confirmation bias is when you are looking for things to confirm how you feel and it is very common when it comes to investing. An example of confirmation bias is when you’re looking to buy a new car and you have your heart set on a navy blue Honda, well, then, you start to see navy blue Honda’s everywhere you go. The same thing goes for investing. You saw that Zoom performed very well in 2020, so you assume it’s going to do the same in 2021, so you invest more money than you typically would into it.



Similar to confirmation bias, there’s herding. Humans are natural pack animals, meaning we take comfort in making decisions that many other people are making. When it comes to investing, you naturally want to invest in a company that you know a lot of other people are also talking about investing in. It feels like a “safer bet.” Unfortunately, there is not necessarily a pattern when it comes to the stock market and just because you’re convinced something is going to go one way or you’re following the flock, doesn’t mean it’s going to go the way you like.

To conclude the webinar, this image was shown on the screen. It is an analogy that Evan likes to use when onboarding clients. The idea is that you've been driving along this highway in the right lane and the lanes next to you are moving, but yours is not. You finally work up the courage to make a lane change and right when you do, you see brake lights and the lane comes to a stop just like yours had before. Then you're saying to yourself, "I should have just stayed here."

Consistency is key when building your financial plan. We're talking about a lifetime, not just a couple of years in the future. This means that you want to consistently contribute to your 401k and consistently review your financial plan since life changes and so should your financial plan. Remember that by the time you finally decide to do what your friend is doing, chances are it's not going to work the same for you.

HOW CAN I GET STARTED WITH FINANCIAL PLANNING?

It starts with a call to let someone know you're interested. Whether it's us at FinDec, or another licensed professional, learn from certified people who do this for a living because there's a lot of wrong information out there and you don't want to take any risks. We work with clients in a number of different ways and our door is always open so don't hesitate to reach out with any questions.

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