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Financial plan basics

For many, getting started is the hardest part

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It is inevitable - like death and taxes. At some point in your professional and personal life, limitations on your time and your personal competencies will force you to surrender some of your autonomy to an "expert". Break your leg: Call your doctor. Car breaks down: Call your mechanic.

And when it comes to dealing with death (estate planning), taxes (tax planning), insurance planning and retirement planning everyone needs a road map, and for that you'll likely need expert financial planning advice.

When is the right time to begin a financial plan?

Probably the most prevalent misconception about financial planning is that one needs to have accumulated some acceptably high level of assets before beginning. According to Melissa Hammel, managing partner of Hammel Financial Advisory Group, such is not the case.

"There are no minimums. The principles are the same regardless of your level of assets," says Hammel. "We have clients who have come in with literally nothing. For example, we have clients who have just gotten out of medical school with no assets and a great deal of debt."

Hammel points out that an individual with literally nothing, or even a negative net worth has just as much need for a financial plan - maybe more - than someone with millions of dollars in assets. "Our philosophy is: If they're comfortable paying our fee, and we do have a minimum fee for the first year, there are no minimum asset levels required."

In fact, many financial advisors will dedicate their first meeting with new clients to a comprehensive overview of that individual's or family's financial life, including core budgets (income versus expenses) and use that information to build a cash-flow analysis. As basic as that is, it's absolutely crucial.

"That's the most critical piece when working with someone who is just starting out in planning," says Lechelle Moore, private financial advisor for SunTrust Bank. "We have to make sure they spend less than they make. Assuming that's working out, and assuming there's no large debt to get under control, then we start looking simultaneously at survivorship issues and the goal planning. We need to know what we're trying to accomplish before we can determine what's an appropriate asset allocation and management strategy."

For many young professionals with good incomes, but without much in the way of investable assets, "financial planning" is a synonym for "sacrifice." That hardly elicits enthusiasm.

"My experience has shown that most people will avoid financial planning, thinking either they have plenty of time or thinking that ultimately we're going to tell them to save more by cutting out things they really enjoy," says Hammel. "That couldn't be further from the truth. It is very important for a person to have a balance, and that includes having money to play with in the moment as well as save for the future. What we're doing is helping them prioritize their spending, and find a balance."

How to find the right advisor?

Whether you're evaluating doctors, auto mechanics or financial planners the criteria you use to evaluate your prospective service provider will be the same - trust, comfort-level and expertise.

The financial planning profession has established a set of designations and accreditations, including Certified Financial Planner (CFP), Certified Retirement Planning Counselor (CRPC) and Certified Investment Manager (CIM), to recognize individuals who have successfully completed advanced levels of coursework and continuing education focusing on professional competency and development. As well, there are a number of organizations, such as the National Association of Personal Financial Advisors (NAPFA) and the Financial Planners Association (FPA), that provide information valuable for screening prospective advisors.

There is some debate among financial planners as to how much weight such designations should carry. "I do consider a CFP essential for those looking at financial planners, because the designation itself indicates that they've gone through a fairly broad educational process," says Tom Lasley, regional financial planner for SunTrust Bank. "That's not to say that a person who doesn't have a CFP can't do it, but one of the key things that we suggest people look for is a person who does broad-based, or comprehensive financial planning."

But the same designation doesn't mean a universality of opinions on vital financial planning issues. For example, in the area of retirement planning, one advisor might recommend that a client load up their 401K, while another might recommend the same client put that money in annuities or other tax deferred vehicles. Both are legitimate and well-informed opinions. Which is right for you? That's where subjectivity, trust and comfort level, come into play.

"Ask the planner to explain their financial planning philosophy and ask them if they have their own financial planner. In other words, are they walking their walk?" says Hammel. "Also

ask them how they're compensated, what they're looking for in a client, and have them describe the process that they walk a client through.

Asked what advice he would give to a person looking for a financial advisor, Rob Shaffer, managing director for Merrill Lynch in Middle and West Tennessee offered, "I would talk to a couple of people, friends and family, and ask them who they're using and who they trust. Talk to someone who can show you a plan to hit your goals. That's much more important than rate of return."

Goal setting

"Determining how to allocate assets throughout all the elements of a financial plan gets down to the individual," says Merrill Lynch's Shaffer, "You and I have very different goals for the rest of our lives. It's not a cookie-cutter type question. People with children need life insurance. If you have money to save, you may want to make sure you fund your pension plan or you may want to fund a Roth IRA. It's such an individual thing, a financial advisor just can't give a one-size-fits all answer."

How big of a drop in the value of your investments could you stand over a year's time? According to Shaffer, your advisor should ask such questions to gauge risk tolerance and define your time horizons. People who want their money two years from now probably aren't going to want to take as many risks as one who is planning for the next 25 years.

"Once you can gauge risk tolerance, that leads you into asset allocation," Shaffer says. "The actual investment is the last step in the process after you've determined risk tolerance and after you've determined asset allocation."

A first meeting with SunTrust's Moore is usually a discussion of goals. Where do you want to be next year, five years and at retirement? "A good financial planner covers the 'what ifs.' What if you do die? What if your kid does want to go to college? If someone wants to buy a home, that becomes part of goal planning as well. The client defines their parameters," he says.

But sometimes it falls to the planner to reign in expectations. "The nice thing about goal-setting is that you can capture the expectations. Even if they're potentially unrealistic, you can then discuss what it would take to make that goal," says Moore. "If you find the goal is unattainable, then that's a wonderful time for the planner to discuss what is realistic. If you have time on your side, most reasonable goals can be attained."

Mike Stuhldrever is a Nashville-area freelance writer.

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