



INVESTOR SOLUTIONS

THE STRATEGIC ADVANTAGE

# Financial Planning For Young Professionals



CERTIFIED FINANCIAL PLANNER

BOARD OF STANDARDS, INC.

Financial Planning Clinic  
November 15, 2008  
Hyatt Regency Miami

# Bio – Jason Whitby

- Investment & Planning 7 years
- CERTIFIED FINANCIAL PLANNER™ professional
- Chartered Financial Analyst, CFA
- Accredited Investment Fiduciary, AIF®
- MBA
- CBS, Herald, Sun-Sentinel, CNBC
- Financial Planning Association, FPA of Miami-Dade
- Adjunct Professor at UM

But maybe more relevant to this topic is....



# My Story as a young professional 1995 to 2000

1. Silicon Valley, CA
2. Semiconductor Engineer ~\$130,000
3. Projected Millionaire ~30
4. Concentrated Tech Holdings
5. Married, 2 Kids
6. Finishing MBA Program
7. Planning to switch careers
8. Planning to move



# Ouch.....2001

1. Miami, FL
2. 20K Debt, Unemployed, MBA Graduate
3. Tech Bubble Popped!
4. Divorced, 2 Kids



I survived!

- I had saved. Being called cheap never sounded so sweet!
- Didn't over leverage or extend myself

- KEEP FROM MAKING BIG MISTAKES -



# Most Devastating Financial Catastrophe

- Your **Health** is your #1 Risk
- Your **Family** is your #2 Risk
- Your **Spending** is your #3 Risk
- Your **Income** is your #4 Risk

The common denominator is YOU. You can't completely control these risks but you can protect against them.

Other common risks?



# Money Sayings

Some people say

- Money is the root of all evil.
- You can't buy happiness.



I believe

- Money is not the end but the mean.
- Money means **you can**, if you want.
- Money = options, freedom and choice.



What does money mean to you?

Your relationship with \$\$ is an excellent indicator of what money's relationship will be with you.



# Set Financial Goals

- Immediate & Ongoing
- Short Term
- Medium Term
- Long Term

Think of yourself as a corporation with a balance and income sheet.

It is an ongoing process that lasts a lifetime.

**THINK BIG!!!!**



# Your Job – more than just salary

- Be happy and work hard
- Know and take advantage of your employee benefits
- Know and take advantage of your employee benefits
- Health Insurance
- Long-Term Disability: Individual vs. Group, How much?
  1. What is a \$50,000 a year salary over 40 years worth today in one lump sum? Answer: Almost \$1.2 Million today!
  2. You can not depend on Social Security Disability.
- Life Insurance: Individual vs. Group
- Retirement Savings: Automatic / Max or Match
- Vision and Dental Insurance
- Short-Term Disability: 30 to 180days
- FSA Dependent Care, FSA Health, HSA



# Taxes - #1 expense

- Do your own!
- It's fun, you'll learn, you can save \$\$\$.
- It will never be easier than it is today.
- If you don't know the rules, you can't get the most out of the game.
- Great Free Software available

Example:

Married Filing Joint

\$65,100 Taxable Income = 25% Marginal Bracket





# Cash Flow

The Bad Times!

**Income**

**Basic Needs**



# Budget

- **Positive** Cash Flow is #1. Nothing else matters without it.
- Keep it simple & flexible.
- Make assumptions, correct later.
- Free budget worksheets online.
- If you do not know, you can not affect and improve

Surplus Cash: 1) Debt or Emergency Cash Reserve  
2) Savings or Investing 3) Consume



# Save - JUST DO IT!

- Pay yourself first!
- Just start with something, nothing is too small.
- 5 to 10% of gross income. 20 to 30% is better!
- Automatic savings from your account or paycheck

## Types of Savings:

- Emergency Cash Reserve
- Car / Vacation / Down Payment / Other
- Retirement Savings
- College Savings
- Do not delay, “time is money” in investing, literally

The most powerful force in the universe?

Albert Einstein replied.....



# Compound Interest

The Miracle of Compound Interest: interest earning interest

Example:

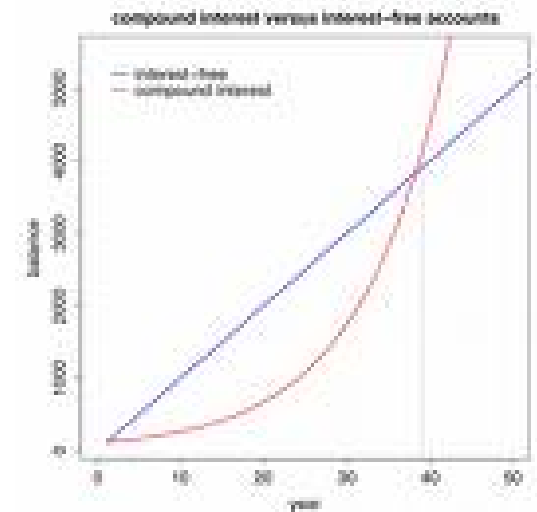
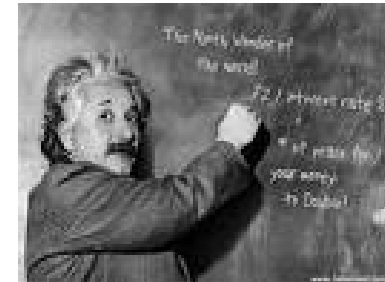
Mary starts saving \$100/mo at 20yrs old, making 9%

Maria start saving \$400/mo at 40yrs old, making 9%

How much will each have when they turn 65?

Mary =

Maria=



# Emergency Cash Reserve

- Money Market Fund, 30day CD, Savings, Checking
- 3 months expenses if 2 incomes
- 6 months expenses if 1 income
- Second income can be alimony, child support, investments, side business

You must know your monthly expenses = budget

Why is this so important?



# Buy or Lease a car

## Buy:

- Usually higher monthly payment until paid off
- Cost of maintenance
- Depreciation but residual value as owner

## Lease

- Lower monthly payment but Large down payment
- No resale value but no depreciation
- Always under maintenance

How much do you drive? How comfortable are you with car maintenance? How important is the car status to you? How much should you spend?

Think Total Cost, not just monthly payments.

Auto Insurance: Don't under insure your liability. Pay attention to your deductibles.



# Buy or Rent a Home

## Buy

- Down Payment, Closing Costs, PITI (Principal, Interest, Taxes, Homeowners Insurance), Utilities, Maintenance,
- Tax Deduction, Capital Gain & Exclusion

## Rent

- Security Deposit, Renter's insurance, Few Utilities and Maintenance, Flexible and Portable



# Buy or Rent a Home

What is the difference in cost between renting and owning?

- Comparable 2/2 = Rent ~\$1,700/mo
- Comparable 2/2 = Own ~\$3,500/mo
- Assume 1% of final cost = total monthly cost estimate
- What if you saved the \$1,800/mo difference? Is it still always better to own?

How much can you afford? Monthly cost < 1/3 of gross income

How long do you plan to stay in the home? If < 3 to 5yrs, rent

What is your marginal tax bracket? Ownership better for high brackets

Your home is your best investment? Average Appreciation ~ 5 to 7%

*Paying rent is throwing money away. Really?*



# Home Ownership Cost

- 30 Year Fixed Mortgage 6.25%
- \$425,000 Home
- \$85,000 Down payment

Monthly Principal & Interest = \$2,100

Monthly HOA / Condo Association = \$400 to \$900

Monthly Tax & Insurance = \$400 to \$600

What % of the monthly P&I is Interest in the first year?

What is the total amount of Interest paid over the 30 years?



# Credit Cards

- What I want you to have!
  - No monthly balance
  - >30 day grace period
  - No annual fees, no cost
  - Cash Back Rewards

Charge \$2,000 for a TV. Make minimum payments at 9% until completely paid off?

1. How much will you have paid on interest?
2. How much will you have paid for the TV?
3. How long will it take to pay off the TV?
4. Will you still want the TV by then?



# Managing Debt

- Housing (PITI or rent) <28% of gross income
- Total Monthly Debt < 36% of gross income
- Consumer Debt < 20% of net income

## Which to pay off first?

- Student Loans
- Credit Cards
- House
- Car

Should I consolidate my debt?



# Credit Report & FICO

## Credit Reports

- 3 free per year
- [www.freecreditreport.com](http://www.freecreditreport.com)

## FICO

- 700 and higher
- How to improve your score.
- Objective should be financial strength, not a high FICO.



# Investing - Where

- Through Work
  - 401K, Roth 401K, 403b, SEPIRA, SIMPLE
  - Match, diversify, do it, max out
- On your own
  - Taxable account, IRA, Roth IRA
  - Discount Brokerage Firms

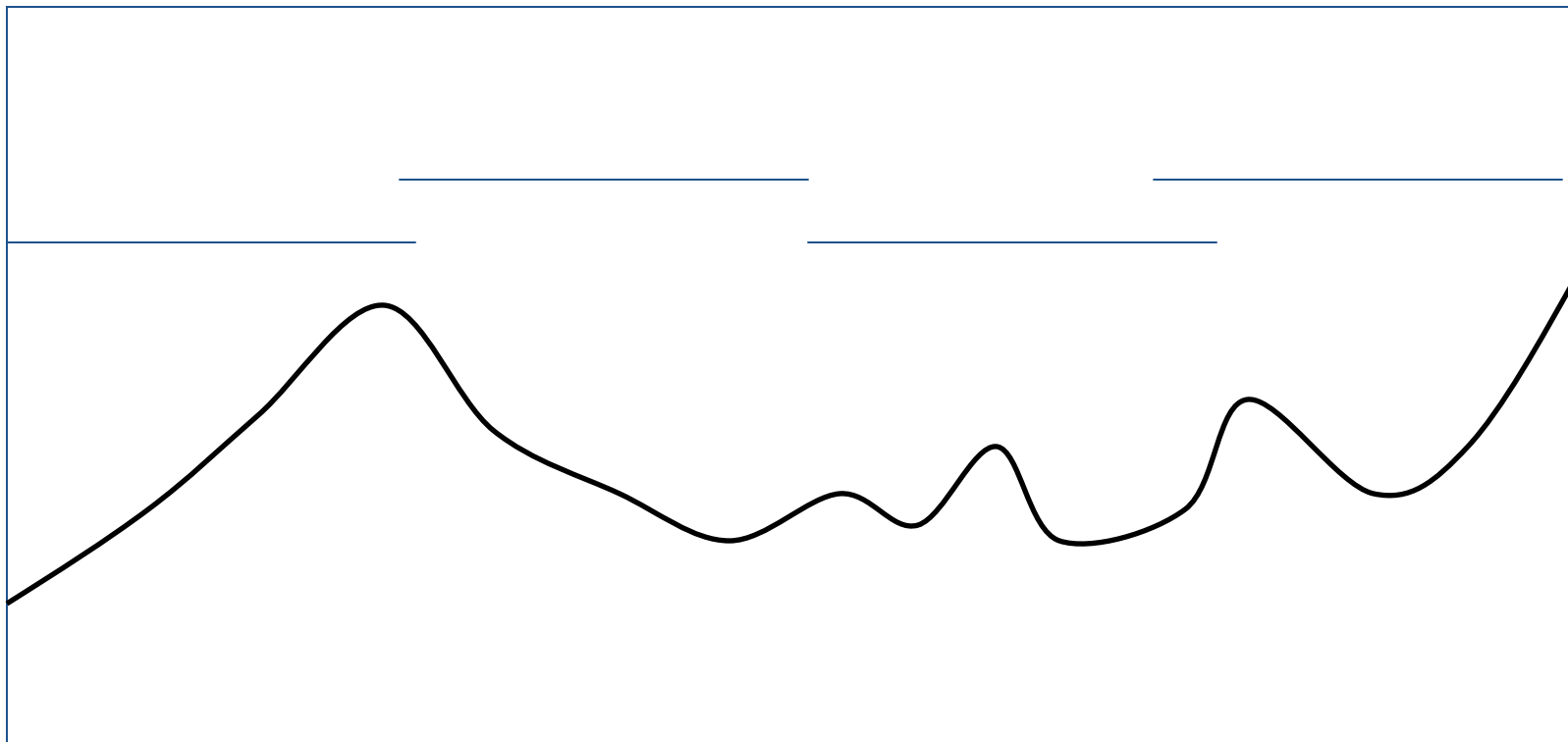


# Investing - When

As a young investor – Now!

As a young investor, you have a long time horizon.

Able to dollar-cost average.



# Investing - How

- Stick to No-Load Mutual Funds & ETFs
  - Mix of Stocks, Bonds, Real-estate, Commodities
  - Domestic, International, Large, Small, etc..
- Target Date Funds or Target Risk Funds
- Common Mistakes
  1. Being overly aggressive when things are great.
  2. Being overly conservative when things are bad.

## Asset Allocation “Guideline”

<50 year old: 70% Equity 30% Bonds

<30 years old : 90/10 or even 100%



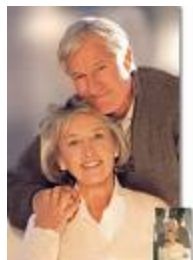
# Family

Getting Married

Getting Divorced

Having Kids

Caring for parents, siblings



# Insurance and Risk

- Life Insurance
  - Temp or Perm
  - How much should I buy?
- Long-Term Care Insurance
- Umbrella Insurance Policy

Always ask yourself, “What is the loss that you are protecting yourself against!”



# Basic Documents

- Will
- General POA
- Medical POA
- Living Will
- Beneficiary Agreements on Accounts
- Online Search: “must have legal documents”



# Ask for Help if you need it

The Internet is a great financial planning tool

- You only need to know what to ask

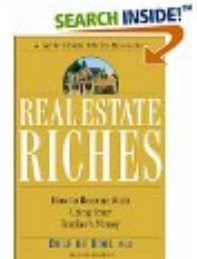
Hire a professional

- First learn how to find a financial professional
- Ask the internet how

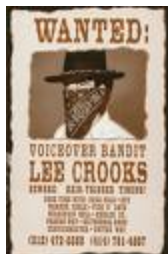


# Beware and Know your source

- “Top 5 funds to own this year!”
- “Real-estate will never crash”
- “The best mutual funds for 2008!”



- BUYER BEWARE!

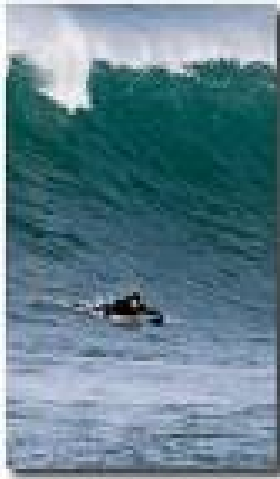


# Simplified

Living Expenses 1/3 : Taxes 1/3 : Save 1/3

Live : Save : Protect : Invest

- Personal finance is not natural.
- You do have to work at it.
- You do need to pay attention to it.
- Financial Success doesn't just happen by itself.





INVESTOR SOLUTIONS

THE STRATEGIC ADVANTAGE



# Financial Planning For Young Professionals

Any questions?