THE Wealth REPORT

HOW TO APPROACH VALUES-BASED FINANCIAL PLANNING

Overview

As young adults and working professionals, it's easy to get caught in a trap of "keeping up with the Joneses" and letting other people establish our values rather than setting our own. However, when it comes to retirement, those influences often fade away. Generally, the children are all grown up, so you don't have to worry about depriving them of things their friends have. You're also no longer in the workplace where people boast about their cars, houses, vacations and expensive toys.

In retirement, you can choose to do the things that make sense for you. For many, downsizing into a home that's easier to maintain is a practical decision. So is living a simpler life spent reading books, attending local cultural events, enjoying carefully planned vacations or simply staying home for quality time with friends and family.

Values-based financial planning is simply identifying what's important to you and developing an investment strategy aimed at helping you achieve your specific goals without taking on undue risk. It's not about chasing performance, trying to achieve the highest possible investment returns each year or even making it to a specific asset accumulation "number" before you retire.

Setting up an investment strategy based on your personal values can help you maintain a long-term perspective and select vehicles designed to achieve a certain level of income throughout your retirement.

Let's be honest: Is your goal to be as rich as possible in retirement, or simply live the lifestyle you want without running out of money? If it's the latter, engaging in values-based financial planning could help you get there without taking excess risk.

Establish Goals

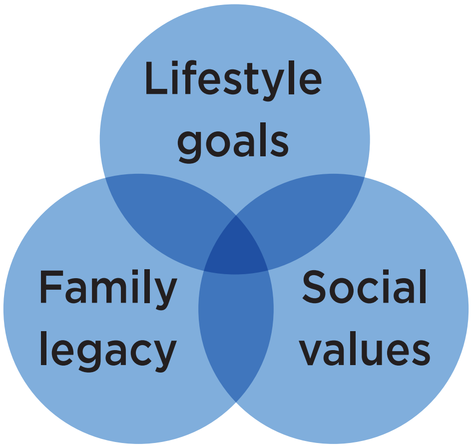
The first step in values-based planning is to establish goals. This may require more in-depth analysis than usual, as this discussion often morphs too quickly into an action plan. It's important to take the time to identify the things that truly matter to you and your spouse, both individually and as a couple, and appreciate why they matter. It's common for couples to simply assume their values are aligned with each other and are the same as what other people want in life. But are they? Only a deep dive into your core values can help you define a financial approach to your career and how to spend, save and invest your income.

Clearly, children are often a part of this values-based equation, especially during earlier years. You're likely to consider what type of education you want for them, as well as what type of living experience you want to provide — what neighborhood to live in, what types of vacations to take — which often reflect your values on family, luxury and worldly exposure.

However, values planning also takes into consideration what type of world you want for the future, because your invested dollars can play a role in that direction. You may wish to avoid investing money with certain types of companies, such as tobacco or gun manufacturers, while allocating your assets toward a different sort of future, such as clean energy or finding cures for diseases.

Your financial decisions should play out even post-retirement, with particular regard to what types of charitable organizations you want to support. The more you identify the issues that matter most to you, the better you can direct your dollars to reflect those values.

Part of your planning effort should be focused on maintaining your desired lifestyle, providing for specific financial goals and protecting the long-term financial independence of both you and your loved ones. To get started, consider the following categories and how your values and priorities fit into each of them.



- Lifestyle goals – Having enough income to live the way you want in retirement, in addition to providing for other family members as needed.
- Family legacy – Do you wish to leave an inheritance for loved ones? If so, consider whether you want to leave them a little or a lot.
- Social values – Would you like to leave all or a portion of your assets to charity?

Develop A Strategy

Once you've established values-based goals, it's time to develop an investment strategy designed to help you meet them.

The first step may be to consider what types of assets best support your financial objectives, and then break them down even further. While past performance should be a strong consideration, it should not be the only driver. Start with an appropriate asset allocation to reflect your timeline for investment and tolerance for market risk. Then, consider the categories within each asset class to determine if you would benefit more from individual holdings, general or sector-specific mutual funds or exchange-traded funds.

Among these investment options, think about what types of industries you would like support and how they typically respond in different types of market environments, such as high volatility, high inflation, high interest rates or strong economic growth (as well as the opposite scenarios).

It's also important to think about what types of investments should be held in taxable versus tax-advantaged accounts. This is often determined by pairing certain accounts with specific goals. For example, you may want to grow assets earmarked to buy a home or pay for a wedding in a taxable investment account.

There are tax-advantaged accounts specifically designed to save for college, just as there are tax-deferred accounts for retirement savings. There are also more flexible types of accounts, such as a Roth IRA, that provide withdrawal options to help investors save for a variety of goals, both near- and long-term.

Remember, every decision should be made within the context of the core values and goals you have established. Because there are many variables involved in selecting different investments and account types, it's a good idea to work with a professional advisor, and possibly professional tax and legal advisors.[1]

Impact Investing

Impact investing is generally referred to by a few different terms, such as socially responsible investing (SRI) and environmental, social and governance (ESG). This is basically the strategy of aligning specific investment choices with issues close to your heart. There is less emphasis on making money for oneself and more on making money to support a particular cause. Note these two goals aren't necessarily mutual exclusive.

Because impact investing is closely related to personal values, it is often used in conjunction with values-based financial planning.

***"When your values are clear, your decisions are easy."*[2]**

Final Thoughts

Values-based investing helps people focus on the long-term so they are less concerned with temporary market declines. If an investor is highly risk-averse, this is a core value that should be built in to the composition of his or her portfolio.

Remember, it's not about earning a specific return each year, or even an specific amount of money by your retirement date. Once you establish the core values you want to live by, it is possible to align your portfolio to help meet the range of income you will need to sustain that lifestyle.

For this reason, a values-based investor may want to consider using a portion of assets to purchase a guaranteed income annuity. An annuity is designed to offer a reliable stream of income, guaranteed by the issuing insurance company, to ease concerns about running out of money in retirement. An annuity may not be the first choice for high-risk investors looking to roll the dice, but it can provide a solid foundation for meeting retirement goals based on the values-based approach to financial planning.

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[1] Leah Golob. Investment Executive. Jan. 21, 2019. "Fear of risk and volatility persists." https://www.investmentexecutive.com/newspaper_/news-newspaper/fear-of-risk-and-volatility-persists/. Feb. 18, 2019.
[2] David Morrison. The Villager. Feb. 13, 2019. "Money's not that important." https://villagerpublishing.com/moneys-not-that-important/. Feb. 18, 2019.