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Appeared in the Two River Times

The Week of August 7 – August 14, 2009

Plan for Tomorrow Today

By Margaret O'Meara, CFP®, AIFA®

The financial meltdown is a stern reminder that failing to plan for low probability events may lead to very detrimental consequences.

The large decline in the stock market coupled with crippling job losses was a double whammy that took many households by surprise. For the unprepared, it was a very rude shock from which it may take years to recover.

The best way to avoid a similar fate in the future is to create a flexible and comprehensive plan today.

Most Americans lack a formal financial plan, according to the Certified Financial Planner Board of Standards' 2004 Consumer Survey. Yet the same survey finds those with a written financial plan are more satisfied with how their finances are managed, more confident about their financial decisions, and less worried about being financially secure at retirement.

Deciding where to invest your money is only one of many parts of a comprehensive financial plan. You also need to consider asset protection strategies, liability management, cash flow analysis, and tax minimization strategies.

A good plan will address questions such as:

- How much do I need to save so I can retire with my desired lifestyle?
- What percent of my portfolio can I withdraw each year?

- Which assets should I tap first in order to minimize my taxes?
- What is an appropriate investment mix based on my goals and tolerance for volatility?
- What insurance do I need to protect my assets?
- What strategies can I put in place to minimize my estate and income taxes?
- How can I ensure that my assets pass to my heirs in the way that I desire?
- How should I title my assets?
- What plans do I need to put in place now to help me realize my special dreams and goals?

And, don't forget, this is not a static document. As your life changes so should your plan. Here are several examples of life changes that may cause a revision to your plan:

- The need to take care of an aging parent
- Divorce or death of a spouse
- A forced retirement or job loss
- An inheritance
- Starting or selling a business

Of course, there are many other transitions, both expected and unexpected, that could occur. The best way to deal with them is to have a plan that covers the expected while being flexible enough to deal with the unexpected.

Like a compass, your financial plan keeps you pointed in the right direction even as your life inevitably changes. What's more, the comprehensive nature of financial planning should help you avoid major mistakes – from choosing a high-flying stock with no regard for its risk, to overestimating how much you can safely withdraw from your nest egg.

By presenting a broad view, your financial plan helps you understand how each financial decision affects other areas of your finances. For example, suppose you receive an inheritance and use it to pay off your mortgage. That frees up more of your earnings to put into your retirement plan. But, your taxes rise because you've lost your mortgage interest deduction, and your expanding net worth means estate taxes could become a problem.

Yes, developing a plan takes time, but the end result may help put you at ease and enhance your quality of life.

As Yogi Berra once said, “If you don’t know where you are going, chances are you will end up somewhere else.” Better to live your life by design, not default.

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