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WHAT IS COMPREHENSIVE FINANCIAL PLANNING?

Hint: It's More Than Just Investment Management

Our Story

We help Mid-Career Professionals and First-generation immigrants organize their financial lives, bring confidence to their financial decisions and build them long-term wealth

- Founder, Perceptive Wealth Advisors
- CFA® charterholder & CFP® professional
- GFP (USA) Global Financial Planning Institute designation; versed in cross-border financial planning issues
- Decision analysis consultant for oil and gas industry clients
- MBA from Rice University with finance concentration
- Undergraduate degree in production engineering in India
- Moved to U.S. for graduate studies earning MS in Mechanical Engineering
- First-generation immigrant to the U.S.
- Worked as mechanical engineer in various industries before switching to finance

Amol Desai

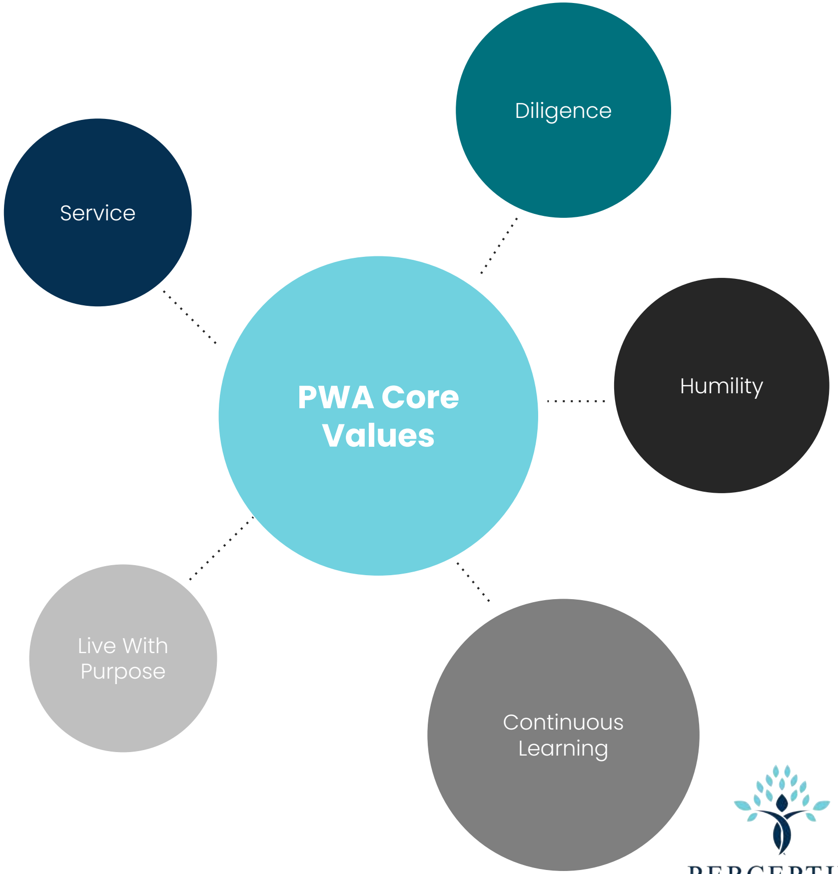
Our Core Values

Our core values include:

- Service
- Diligence
- Humility
- Continuous Learning
- Live With Purpose

We believe that wealth is not merely your material possessions or assets but, rather, a potent resource to be managed carefully to facilitate long-term goals.

Our core values remind us daily of our mission to execute each client's financial plan in a way that's uniquely tailored to their needs.



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Your Story

- You are a mid-career professional. And/Or
- You are a first-generation immigrant to the U.S. who came here for graduate studies or career growth.
- You are successful in your career and now looking to be more organized and efficient in your financial affairs.
- Your beliefs include the importance of:
  - Living and building your life with purpose (There is a lot more to life than just chasing materialistic goals.)
  - Financial decision-making being a collaborative process with your partner/spouse
  - Open and honest communication about finances within family
  - Pursuing hobbies / interests outside of work to enrich your life
  - Spending quality time with your loved ones
  - Raising well-rounded children

Your Story (continued)

- You may have these financial questions on your mind:
  - How much money do I need for retirement?
  - How will I build those savings?
  - How do I plan my finances in a way that balances my current lifestyle with my future goals?
  - How should I strategize my investments for long-term wealth building?
  - What are the cross-border tax implications if I have assets in my home country and the U.S.?
  - What are the pros and cons of bringing my overseas assets to the U.S.?
  - Am I doing all I can to minimize my lifetime tax burden?
  - What type/how much of insurance do I need to fully protect my assets and keep my family safe?
  - How can I distribute my estate to my heirs while minimizing any hassle for them?

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Common Misconceptions Around Financial Planning (and Role of Financial Advisors)

- Financial Planning = Investment Management
- Financial Advisor = Investment Manager (ONLY)
  - Some want to follow the latest, hottest investment trends, with the help of their advisor, in constant pursuit of high returns—irrespective of broader market conditions.
  - Others are more realistic but still expect an advisor, would better manage their investments than going the DIY route.

Common Misconceptions Around Financial Planning (and Role of Financial Advisors)

- Hiring a financial advisor = Unnecessary expense.
  - Some rely on tips on social media or stock newsletters
    - Believe these sources are timely, accurate, and actionable.
  - Others follow DIY, low-cost, passive index-based investing approach;
    - Believe such wisdom eliminates any need to seek out professional advice.

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Broaden the Perspective

=> Narrow interpretation is commonplace:

- Financial Planning = Investment Management
  - Investment management is the ONLY role of a financial advisor.
- Unrealistic expectations around the investment returns an advisor can and should deliver
- Decision to seek professional guidance revolves around:
  - Self-perception of their own investment management skills and needs

=> Instead, let's broaden the perspective:

- What exactly is investment management, and why think beyond?
- What is comprehensive financial planning? How can it add value?
- What to expect from a competent financial advisor

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What Is Investment Management?

Investment management is the selection and allocation of assets in order to meet financial goals.

- Selecting the right assets from various asset classes: stocks (equity), bonds (fixed income), cash, and alternatives
- Creating a combination of these assets (allocation) to suit risk tolerance and timeline of needs/goals
- Periodically rebalancing the portfolio as the economy and markets change
- Monitoring progress to assess and adapt ongoing strategy

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Drawbacks of Focusing Only on Investment Returns

- When you manage your own investments,
  - You may be unaware of the risk level of your portfolio—too much or too little risk.
- When working with an investment management-only advisor,
  - Your risk tolerance is generally determined initially by a short questionnaire that may or may not be reassessed timely.

>> On the other hand, your investment strategy ought to be periodically reassessed and adapted as life circumstances change, e.g.:

- Increase/decrease in liabilities
- Financial dependents
- New short-term goals
- Capacity (not just willingness) to take risk
- Marriage, divorce, widowhood, grandchildren, employment status

What's the Behavioral Outcome of Investment-Only Focus?

- ⇑ During strong and growing market environments, we tend to develop a false sense of security and confidence in our ability to manage investments.
  - ⇒ Greed leads us to buy more at already elevated market levels.

- ⇓ During weak and declining market environments, we tend to obsess over our portfolio value, which can lead to excessive stress.
  - ⇒ Fear leads us to sell at already depressed market levels.

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Think Beyond Chasing Investment Returns

- Investment returns:
    - Are never guaranteed
    - Vary with market cycles
    - Vary from investor to investor

Think Beyond Chasing Investment Returns (continued)

- Note: Investment management is only one part of comprehensive financial planning.
- Caution: If the focus is solely on investment management, other personal finance areas may get overlooked; opportunities to gain efficiencies and build a stable/balanced financial foundation for life may potentially be lost.

What Gets Left Out With an Investment-Only Approach?

- The opportunity to create of a disciplined spending and saving plan
- The opportunity to plan and optimize tax savings to your benefit
- The opportunity to review and maximize employee benefits every year
- The opportunity to leverage the right type of insurance coverage to avoid under- or over-insuring your risks
- The opportunity to plan for your legacy securely and efficiently as per your wishes

What Is the Ultimate Purpose of Why We Invest?

- It's NOT to earn the highest potential returns year after year or to reach one magic "net worth" number to retire.
  - That's a nice wish, but unrealistic and a moving goalpost!

- Instead, it is to know:
  - We are working and moving toward financial security for life, and
  - We will have all the resources for what we need & when we need it.

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Then How Do We Achieve Financial Security?

- Financial security is as much (if not more) a feeling as any “net worth” goal we may want to achieve. This feeling cannot be tied to one static number in a constantly changing life.

  Instead, the feeling of financial security is driven by:

  - Knowledge that all our financial affairs are organized cohesively and are aligned with our goals and personal values
  - Clarity of thought about financial topics presently affecting us, and
  - Confidence while making any financial decisions, despite the uncertainties that might be present

What Is Comprehensive Financial Planning?

- A systematic, holistic approach to navigate financial life
- Goes beyond just investment management
    - Investment strategy is a means to an end—just one of the many other areas/tools.

Comprehensive Financial Planning

- Cash Flow Review
- Goals Review + Savings Needs
- Tax Analysis & Planning
- Investment Strategy & Management
- Employee Benefits Analysis
- Retirement Planning
- Insurance Planning
- Estate Planning

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Various Planning Opportunities Under Different Areas

Cash Flow Review
- Income Sources
- Spending & Savings plan
- Emergency Funding
- Organize banking structure
- Planned Large Expenses
- Review current debt: mortgages, Credit cards etc.

Goals Review + Savings needs
- Identify Goals
- Assess periodic savings need per goal
- Plan contributions/distributions per goal
- Assess Kids' education savings need
- Choose 529 Education Savings plan

Tax Analysis & Planning
- Review/ Project annual Tax Returns
- Deductions and Credits
- Health Savings and Flexible Spending Accounts
- Review of Cost-Basis
- Tax-Loss or Gains Harvesting
- Carry Forward Losses
- Potential Roth Conversion

Investment Strategy & Management
- Review of Portfolio
- Risk Tolerance Assessment
- Time Horizon
- Asset Allocation + Asset Location
- Investment Policy Statement
- Periodic Rebalancing
- Accumulation / Withdrawal Strategies
- Review Investments Held Outside of the Firm

Employee Benefits Review
- Review Benefits Available
- Guidance during Open Enrollment
- Optimize contribution to Employer Retirement Plans.(401K, 403b, etc.)
- Review Insurance Options
- Review options for HSA or FSA accounts

Retirement Planning
- Retirement Goal Setting
- Select investment option in Employer-Sponsored Plans like 401(k)'s
- IRA / Roth IRA Contributions & Conversions
- Annuities and Pensions
- Social Security and Medicare
- RMD's and Withdrawal Strategies
- Self-Employed Retirement Plans

Insurance Planning
- Review of Existing Policies
- Life Insurance Needs
- Long-Term Care Insurance
- Disability Insurance
- Health Insurance
- Homeowner's or Renter's Insurance
- Liability Coverage

Estate Planning
- Wills
- Trusts
- Powers of Attorney
- Health Care Proxy
- Guardians for Minor Children
- Irrevocable Life Insurance Trusts
- Estate Taxes
- Charitable Giving and Trusts

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Let’s review a few examples of planning opportunities to better understand the benefits of such systematic approach.

Disclosure:

These cases are NOT actual clients or testimonials. They are developed to showcase some of the representative personal finance scenarios and how a comprehensive planning approach can create value. The outcomes described in these examples are not a guarantee of similar results for your specific situation. It will depend on your own circumstances, efforts, and discipline in undertaking the comprehensive planning exercise.

Example 1:

- Couple, ages 44 & 42
- Mid-career professionals
- Two kids, ages 7 & 5
- Household annual income ~ $200,000

Situation:

- Careful spenders and consistent savers
- Not utilizing employee benefits to the maximum; contributing only the default 3% to 401(k)
- Have a new, primary home and renting out the prior home (~ $380,000 of capital gains, but still has ~$400,000 of mortgage))
- But not interested in maintaining real estate investment
  - Anxious about current high debt levels due to two mortgages
  - Would rather spend time with family and pursue hobbies than deal with burden of property management and tenant demands

Planning Opportunities / Related Benefits

- As consistent savers, they have considerable new cash each month (which just accumulates idle in the bank for months before invested or spent)

  ⇉ Every month can set up contribution of excess cash to investments—a taxable brokerage account &/or increase 401(k) contribution

  ⇉ In 401(k), they should max out the account each year ($22,500, the 2023 limit) vs. their current contribution of $3,000 (3% default).

  ⇉ At 22% marginal tax rate, each will create ($22,500 - $3000) x 22% = $4,290 of tax savings => $8,580 tax saving/year for the household.

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- Selling the rental home and investing the proceeds in 529 education savings plans for kids' college education

⇉ They are not keen to keep the rental home. It's been almost 5 years since they moved to the new primary home.

⇉ If they sell now, they can use Section 121 capital gains exclusion: Gains up to $500K from sale of home which you owned and a resident of for at least 2 of the past 5 years are NOT taxable.

  - The rental home (prior primary home) has ~$380,000 capital gains, which can all be tax-free if sold now.
  - If waited for one more year, they would lose this exclusion partially.

⇉ The sale will reduce debt level by ~$400,000

  - Will eliminate related interest costs

⇉ Net proceeds can go to 529 educational savings plan

  - Can fund ~80% of the kids' college education (~10 years away)
  - 529 plans can be beneficial as they provide tax-free growth and withdrawal when used for qualified education expenses.

Example 2:

- Couple, ages 38 & 35
- Immigrated to the U.S. from India in 20s for graduate studies
- Current household income = $180,000 (single income)
- 5 years ago, received appreciated foreign stocks as inheritance in India

Situation:

- Household income expected to grow significantly in 3 years
  - Career growth for working spouse
  - Non-working spouse will return to workforce
  - Expected household income ~$350K - $400K
- Foreign stock position is significant and concentrated in just 1 stock with ~$200,000 of unrealized capital gains
  - Also, high foreign exchange risk
- Not aware of the U.S. tax consequences and IRS reporting requirements for maintaining assets in India

Planning Opportunities / Related Benefits

- Missed Opportunity: “Step-up” in cost basis; In the U.S., the cost basis of an asset you receive as inheritance is “stepped up” to the fair market value of the asset on the day you receive it. The deceased person’s cost basis gets ignored.
    - The couple did not know of the “step-up” in basis rule and missed on selling the foreign stock 5 years ago at the time of inheritance.
        - They could have avoided all capital gains for the U.S. tax purposes.
    - Now, when they sell the stock, they will have to pay 15% capital gains tax on the ~$200,000 of gains => $30,000 of tax.

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- In order to distribute the tax burden over multiple years, a staggered sale can be planned in next three years BEFORE household income goes to >$400,000.
  - With high level of total household income, the capital gains tax rate is potentially 20% with additional 3.8% net investment income tax.
  - With proper tax planning and implementing a staggered sale, the couple will reduce potential tax burden by thousands of dollars.
  - The staggered sale plan will have to be monitored and adjusted in the event of unfavorable movement in USD/INR forex rate. Guidance from a professional fiduciary advisor who embraces holistic planning can be invaluable in this situation.

- Collaborate with a competent CPA knowledgeable in cross-border tax filing requirements to streamline the U.S. tax filing in a compliant way.
    - As U.S. tax resident, the couple is required to pay taxes on global income as well as report foreign financial assets through forms like FBAR, Form 8938, Form 8621, whenever applicable.
    - Potential penalties of non-compliance are high, ranging from $10,000 up to 50% of asset value that was reportable but not reported.

=> A comprehensive financial planner will spot these costly mistakes and can collaborate with a CPA to avoid penalties of potentially more than $10,000.

Example 3:

- Single woman
- Age 42
- First generation in the U.S.
- Annual income >$250,000 + Restricted Stock Units (RSU) of employer stock worth ~$10,000/year

Situation:

- Accumulation of RSUs over the years => concentrated position in employer stock (~30% of investment portfolio)
- Contributes maximum to the 401(k) = $22,500 for 2023
  - Employer also matches $10,500
- 401(k) plan also offers after-tax and Roth options; she does not know how to utilize these options to maximize the benefit.

Planning Opportunities / Related Benefits (for RSUs)

- Plan selling new RSUs. Employer allows to set up immediate automatic sale of upcoming RSUs as they vest.
  - Additional ~$10,000 of cash (through sale of new RSUs) will become available each year for contributions toward any short-term goals like annual travel and/or other more diversified investments.
  - As the new RSUs will be sold immediately:
    - It will stop further concentration in employer stock, reducing portfolio risk.
    - No capital gains will be accumulated, eliminating the associated tax bill she would otherwise face in future.

- Plan a staggered sale of already accumulated RSUs over next 3-4 years.
    - It will reduce employer stock concentration to 10-12% from the risky levels of ~30% today.
    - Because of the staggered sale, the related capital gains taxes can be spread over 3-4 years without putting the burden in a single year.

Planning Opportunities / Related Benefits (401(k) Options)

- Availability of after-tax and Roth 401(k) options can be used to get maximum possible contribution to a Roth IRA account.

  Rule:

  - Maximum employee contribution limit to 401(k) = $22,500 (for 2023)
    … This is common knowledge, but
    - Total amount allowed (including employer match and after-tax 401(k)) = $66,000

  - What she is already contributing:
    - Maximum employee contribution = $22,500 to traditional pre-tax 401(k)
    - Employer match to traditional 401(k) = $10,500

      => Total contribution to 401(k) = $33,000

      => Possible additional contribution to <u>after-tax 401(k)</u> = $66,000 - $33,000 = $33,000

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- This after-tax contribution can be rolled over to Roth 401(k) and eventually to Roth IRA. This is the path you need to take if Roth IRA is desirable.
  Why is this important?

  - Contributing directly to Roth IRA is NOT an option for high-income household.

  - Investing through Roth type account (IRA/401(k)) has potentially the highest tax benefits.
    - Growth is tax-free.
    - Withdrawal can be tax-free if qualified (> age 59 ½ & some other rules…).
    - No required minimum withdrawals (after age 73)

  - Roth IRA account outside of 401(k) gives more investment options to implement.

- …So, can implement this additional contribution of $33,000 to after-tax 401(k) and eventually rolled it over to Roth IRA every year.

To understand the benefit of this action:
Assume: She did not know the rules and/or did not implement
=> Extra $33,000 are available by not making additional contribution to after-tax 401(k).

Now compare with 2 alternatives:

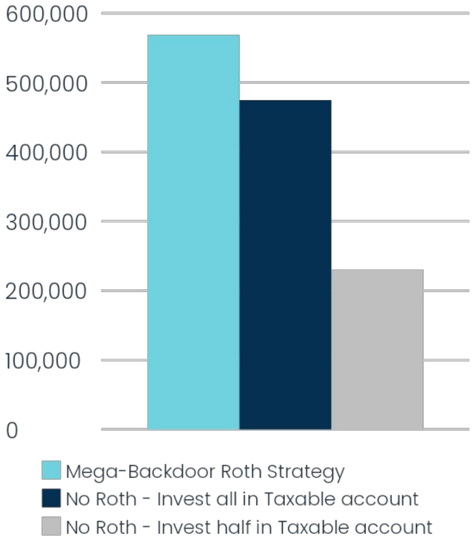
Alt. A: => Invest the available $33,000 to regular investment account.
=> Growth and withdrawal will attract at least 15% capital gains tax.

Alt. B: Also assume she is not diligent enough to invest the full $33,000 available.
=> Instead, ~half of the $33,000 available got spent on unplanned things.
=> Only the other half ~$16,000 is invested in the regular taxable account (15% CG tax).

Let's Assume…

- She is going to work at same employer and have the same opportunity for next 5 years.
- Expected pre-tax rate of return = 8%
- Expected return for Roth account = 8% (tax-free growth and withdrawal)
- After-tax return for taxable account = (1-0.15) x 8 = 6.8%

Comparison of Investment Value of the three alternatives at age 60



	Mega-Backdoor Roth Strategy			No Roth - Invest all in Taxable account			No Roth - Invest half in Taxable account		
Age	Amount Invested	Rate of Return	Value @ Age 60	Amount Invested	Rate of Return	Value @ Age 60	Amount Invested	Rate of Return	Value @ Age 60
42	$ 33,000	8%	$ 131,869	$ 33,000	6.8%	$ 107,844	$ 16,000	6.8%	$ 52,288
43	$ 33,000	8%	$ 122,101	$ 33,000	6.8%	$ 100,978	$ 16,000	6.8%	$ 48,959
44	$ 33,000	8%	$ 113,056	$ 33,000	6.8%	$ 94,548	$ 16,000	6.8%	$ 45,842
45	$ 33,000	8%	$ 104,682	$ 33,000	6.8%	$ 88,528	$ 16,000	6.8%	$ 42,923
46	$ 33,000	8%	$ 96,927	$ 33,000	6.8%	$ 82,892	$ 16,000	6.8%	$ 40,190
			$ 568,634			$ 474,790			$ 230,201

- Mega backdoor Roth vs. Alternative A (full $33K in taxable account) = + $93,844
- Mega backdoor Roth vs. Alternative B (only $16K in taxable account) = + $338,433

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It's Important to Note…

- Only some of the savings and benefits can be realized within the first few days or months of working with a professional using the comprehensive planning approach.

- However, most of the value takes time and gets realized over several years and is not readily perceptible up front.

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Even beyond the quantifiable benefits, there is a lot of intangible value to undertaking a comprehensive planning approach (whether you DIY it or partner with a professional).

Once you appreciate the value this approach can bring you, you'll be much more likely to commit to making positive changes in your financial life for the long term.

Do I Need Financial Planning?

- Are you reviewing your income/expense patterns to develop an annual spending and savings plan?
- Are you intentional about contributing your monthly savings toward some goal or in an investment account?
- When did you last confirm you are maximizing your employee benefits?
- Do you have clarity around your short-term vs. long-term goals and priorities? Do you reassess it annually?

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Do I Need Financial Planning?
(continued)

- Are your investments (including your 401(k) or other employer retirement plans) in line with your long-term goals and risk tolerance?
- Is your investment strategy carefully planned, well-diversified, and monitored frequently?
- Tax planning is a lot more than annual tax filing/preparation. Do you know (or regularly assess) how you can mitigate your tax burden?
- Have you analyzed potential risks to your assets and/or income? Are they sufficiently covered through relevant insurance? Or are you using too much insurance?

If you do these things on your own, kudos to you!
Take the steps to implement. Review & adjust your plan annually.

Everybody can benefit from comprehensive financial planning!
Delaying to systematically work on yours (DIY or with help from a professional) may lead to some lost opportunities to organize and strengthen your financial future.

What Should You Expect From Your Financial Advisor?

- A complete picture of your finances with improved organization in all financial affairs
- Unbiased feedback and objective discussion around your concerns
- Keeps you accountable for all planned actions
- Helps you build clarity of thought and confidence in financial decisions
- Acts as an educator, providing opportunities for you to learn more about various financial topics
- Conducts periodic review and adjustments to the bigger financial plan (beyond just the investment portfolio)

How Do You Choose a Financial Advisor?

- Work with an advisor who has minimal conflicts of interest:
  - Independent: Not affiliated with any broker-dealer or banks
  - Fee-only:
    - Fees are transparent and disclosed up front
    - Compensated directly by clients only for service and advice
    - No commissions / referral fees
  - Fiduciary: Puts client interests ahead of their own
  - The advisor provides comprehensive planning service vs. investment management only.
- The advisor has the right credentials.
  - CFA® and CFP® are two of the most relevant and reputed designations for finance professionals working in the personal finance advisory space.

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How Do You Choose a Financial Advisor? (continued)

When you talk to an advisor, ask yourself:

- Does the advisor listen to me? Do I feel heard?
- What are the advisor's values? Do my values align with theirs?
- What drives this advisor? Why is he/she in this business? Can I relate to it?
- How is the communication? Does the advisor seem accessible and open to educating me about my questions?

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The Takeaway

- Comprehensive financial planning is more than just investment strategy.
- Financial planning involves analyzing your whole financial picture to make the most of your resources.
- Cash-flow planning, retirement & investments, tax optimization, risk mitigations through insurance and estate planning, etc., all have a place in your long-term plan.
- Waiting to embrace systematic planning approach (DIY or with an advisor) will lead to many lost opportunities.

Do you have questions about comprehensive financial planning?

Perceptive Wealth Advisors Is Here for You

- We are independent, fee-only advisors.
- Bound by fiduciary standards
- Amol Desai, CFA, CFP®, GFP(USA), MBA
- Let us guide you in mapping out your financial life.

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How to Get Started

We are here to provide you comprehensive financial planning, including investment strategy, for your bigger financial picture. We are here to listen and help when you're ready.

What's Next?

- Scan the QR Code to Schedule a complimentary call =>
- Speak with us and explore if we are a good fit for your needs

Contact Us

- Schedule Complimentary Call at:

  https://calendly.com/perceptive-wealth-advisors

- Discuss your values and goals with us at:

  +1-713-575-2712

- Or email me at:

  amol@perceptivewealth.com

- Or visit us at:

  https://perceptivewealth.com/