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A wealth action plan for 2010

Michael Nairne, Serious Money

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A wealth-action plan should include an assessment of the skill mix and quality of advisors.

At the end of a busy year, many affluent individuals vow to get on top of their financial affairs. Sadly, they are often no more successful than they are at keeping their New Year's resolutions. Like those extra pounds that survive annual January commitments to diet and exercise, a muddle of financial issues and administrative loose ends can easily endure year after year.

The key to effective financial management is having an annual wealth action plan.

The first step in such a plan is a "situation appraisal" where the family meets to review its circumstances. The dynamics of a family and its finances are always in flux as markets fluctuate, tax laws change, personal and career goals evolve, health and martial issues arise, and children and grandchildren grow up.

In addition to identifying changing circumstances, the adequacy of the wealth management resources presently in place should be addressed, including the skill mix and quality of their professional, investment and other advisors.

A good situation appraisal clarifies and prioritizes issues and concerns in response to these changes. Most importantly, it encourages dialogue so everyone is on the same page regarding what needs to be addressed in the coming year.

Every family is unique so different issues arise in this appraisal. Sometimes they are of a strategic nature. The primary concern of one family I know was how and when investment decision-making authority should be transitioned from the patriarch to the children.

For other families, the issues are more tactical. In a family where a trust beneficiary was moving to the United States, the need for cross-border tax planning advice was identified. In another case, a family who had recently sold their business determined that they had outgrown their long-standing stockbroker who was now struggling to advise them effectively on their new-found millions.

With issues and concerns prioritized, the annual wealth action plan can be completed by detailing the actions needed, identifying the family members and external professionals or advisors involved and scheduling the timing. Some families find it difficult to perform the situation appraisal and prepare the plan on their own and ask their external wealth managers to oversee the process. Solutions for more complex issues may not be readily apparent and it may be necessary to set up distinct projects to attack them.

Extremely wealthy families often have a number of projects ongoing at any one time.

There are a number of important tasks that need to be incorporated each year into the wealth plan. A review of the prior year's plan and achievements is a must. Annual investment results need to be analyzed, the return and risk parameters of the investment plan revisited and, where appropriate, changes made.

A joint meeting with the family's tax and investment advisors should be scheduled to review the changing landscape of planning techniques and tax-advantaged products to ensure all opportunities are exploited. For example, 2010 may be the year to consider a spousal loan arrangement to take advantage of today's low prescribed rates or to move a portion of the portfolio into more tax-efficient ETF's.

The annual wealth action plan also needs to catalogue the myriad of tasks and deadlines necessitated by tax compliance and required for effective financial administration. Missing time-sensitive dates such as tax and election filings can result in needless penalties and interest costs.

There is a world of difference between making a resolution and keeping it. For families who want real financial peace of mind, the plan can bridge that gap.

Michael Nairne, CFP, RFP, CFA is the president of Tacita Capital Inc., a private family office and investment counseling firm in Toronto.