

MORTGAGE advisor™

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Facing Financial Dysfunction

According to veteran financial advisor and author Bert Whitehead, financial freedom is the result of strong and healthy financial habits. In “Facing Financial Dysfunction,” Whitehead demystifies the difficulties that block people from achieving their financial goals and explains how to establish the mindset and habits that lead to financial freedom.

Part two in a three-part series

In part one of this series, we examined the basic foundational issues that lead to financial difficulty. Contrary to popular belief, author Bert Whitehead contends that financial prosperity is not the result of knowing the markets or securing the right investments; financial freedom is often the result of healthy beliefs and behaviors about money. Whitehead asserts that the reason that most people fail to reach financial freedom is because their goals are hampered by their financial dysfunctions, which surface in behaviors that limit their ability to successfully earn, grow and manage their money. By addressing and overcoming these dysfunctions, Whitehead explains that individuals can actually level the playing field and move forward on the road to financial prosperity.

Part one of this series also outlined the most common financial personality types and explored the roots of financial dysfunction, which Whitehead asserts occur at three levels. At the cognitive level, financial dysfunction results from incorrect or misunderstood information. At the belief-system level, the dysfunction is caused by values learned in childhood or through the family of origin. At the psychological level, dysfunctional behaviors are rooted in very deeply held psychological association. Cognitive issues can customarily be overcome through education. Dysfunctions rooted in belief systems require individuals not only to recognize their values and beliefs, but also to challenge and re-establish them as well. Both of these types of dysfunctions can usually be successfully addressed with the help of a qualified and knowledgeable financial professional. Dysfunctions grounded at the psychological level, however, often require the help of a professional psychotherapist, and are customarily beyond the scope of a financial professional.

We concluded last month's installment by examining Whitehead's list of seven of the most common symptoms of

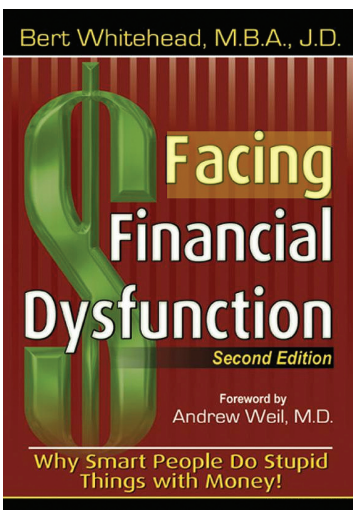
financial dysfunction: mortgage aversion, inappropriate risk reactions, compulsive spending or excessive debt, poverty mentality, miser mentality, acute financial paranoia and windfall woes.

Now that we've explored Whitehead's advice on how to recognize and treat each of these financial dysfunctions, it's time to move forward to his suggestions for realigning your mindset and resetting your behaviors for financial prosperity and freedom.

Shifting the Paradigm

Before you can begin to establish better financial habits, you'll first need to shift your perception of the factors that control your financial life. Many people believe that their financial lives are dictated by exogenous factors, which are factors based outside of their own lives, like the stock market, the real estate market, or interest rates. Exogenous views can be particularly detrimental to reaching financial freedom, as they tend to imply that there's little to nothing that can be done to proactively control your financial destiny.

The path to reaching financial freedom, especially for the average person, will be much smoother for those who employ an endogenous view. An endogenous view recognizes that factors that originate from within your own life, such as marriage, children, occupation and disability, have by far the greatest impact on your financial life. By recognizing the impact of these endogenous factors, you can better prepare for their impact with appropriate adjustments to your financial plan. An endogenous view empowers individuals with the understanding and necessity of protecting themselves against life's unexpected emergencies. It's what enables you to stay prepared, and hold onto and grow your wealth, even when difficulties arise.



Whitehead contends that most people could avoid the most common financial dysfunctions if they simply knew how to do it. In other words, financial dysfunction is not a matter of inevitability. It's avoidable for those who learn how to engage in healthier behavior. Financial dysfunction is usually caused by having an exogenous orientation. Shifting your paradigm from an exogenous and endogenous view is a critical step in the process of moving from financial dysfunction to financial health.

It's very important to keep exogenous information in its right place. Be cautious in accepting financial "advice." The financial services industry is filled with people who are less concerned with your financial well being than they are with achieving their own sales goals. They tout sales pitches as "advice" and in the process, convince much of the unwitting public that their financial security is out of their control.

Taking Control of Your Financial Destiny

If you'd like to take control of your financial destiny, you'll need to understand how certain factors can be leveraged to provide the highest levels of safety and return.

Asset allocation is one of the best ways to gain control over the way that market volatility impacts your portfolio. In a nutshell, asset allocation is the way you have your assets distributed. Optimal asset allocation takes into account the individual's stage in life as well as the level of risk exposure that's appropriate for his or her age, goals and current financial standing. When allocating assets, don't try to time the market. Instead, focus on allocating your assets according to your current situation and goals. Rather than starting out by seeking the highest rate of return, first focus on assessing your appropriate risk level relative to your current stage in life, then ask what type of return is reasonable for a balanced portfolio.

View your investment progress as a journey. The investment vehicles you choose will determine the speed, comfort and safety that you'll experience in getting to your destination. The ease of your investing journey is determined by your asset allocation. The problem is, most investment solutions promoted by the financial community were not designed for regular people. They're

based on models involving huge pension funds and massive institutional accounts, and totally inadequate for individual investors, particularly middle income individual investors.

Be careful with the common asset allocation models frequently utilized within the financial communities. In addition to including asset categories like foreign bonds and precious metals, which are irrelevant to most people, most common asset allocation models also tend to ignore personal residences--which are often the largest and best investment an individual can make in his or her lifetime--as apart of the investment portfolio. These asset allocation models also tend to disregard individual income taxes and functionality, and don't account for real-life issues like the need for short term liquidity and protecting against factors such as inflation and deflation. And finally, they don't account for the flexibility needed by individuals whose investment horizons are impacted by factors like death, disability and divorce. Asset allocation is a powerful tool in adding control to your financial life, but in order for it to benefit you the most, you'll have to allocate assets based on your individual situation, not some one-size-fits-all template.

A good financial plan is another way that you can exert control over your financial life. If you're working with a financial advisor, choose an individual who will help you develop a customized plan. Many people who call themselves financial consultants or financial planners are not acting in the client's best interest. They're salespeople, not fiduciaries. Make sure to choose wisely.

Income is often the weakest point in most people's financial life, and is where financial dysfunction begins. Recognize that your income is within your control. The bottom line is that if you aren't charging enough, you're not earning enough. Whitehead advises creating value by applying your skills and expertise to the information and data that is readily available to the general public. If you provide what is already readily accessible, your value will not be as high.

It's also very important to understand your level of risk tolerance. Your risk tolerance actually has more to do with who you are than what can and will happen to your portfolio. While there are

numerous questionnaires and forms utilized by the financial industry to determine someone's risk tolerance, it simply isn't that easy to determine. Find a financial professional that will work with you to discover your true risk tolerance and help you to develop an investment portfolio that's congruent with the other risks and responsibilities in your life. Risk tolerance can be assessed by evaluating factors like how much you save, whether or not you're self employed and whether or not you have a family or other dependents that rely on you for support.

Finally, take control over how well you understand the way your finances and investments work. Surprisingly, Whitehead finds that many of his clients need to spend less--not more--time gathering financial information. The truth is that most information provided by the media does little more than to create unrealistic expectations. Keep media information in proper perspective. Know that listening to media reports and commentary doesn't necessarily result in gaining further insight, in fact it can have quite the opposite effect. Be wary of gurus. Probably the biggest and most obvious misconception promoted by the media is that someone can actually predict what will happen next in the financial markets, and that if you can just find that person, your financial future will be assured.

You can actually have more control over your financial life than you probably realize if you follow two basic guidelines. First, you must know the actions that will enable you to be financially functional. Second, you must stick to them no matter what.

Separate Fact from Fiction and Establish Realistic Goals

Now that you've learned where the control for your financial life really lies, you're ready to start establishing goals, which are the center point of any financial plan. Take the time to determine what your goals are, but don't dream impossible dreams. Apply the numbers. Goals without numbers are fantasies. You and your financial advisor need find out how your goals translate into numbers. This will help develop a destination.

Next month, we will take a look at Whitehead's endogenous approach to financial freedom, and review his methodology for proactively achieving your financial goals.



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To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.