112 – Orchestrating Short, Mid, & Long-Term Buckets
Episode Transcription

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Paul Adams: Balance may not be what most of us are after. You see, we shoot for balance. It seems like a good idea, but I want you to think for a moment, "What does the word balance imply?" Balance implies two forces working against one another in equal and opposite ways in order to create the balance. Now you see, that's not what we actually want.

Speaker 2: Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams now brings directly to you.

Paul Adams: Hello and welcome to Sound Financial Bites. My name is Paul Adams, CEO of Sound Financial Group. Our president, Cory Shepherd isn't with us here today, but watch for him in some upcoming episodes. For those of you that love Cory, I know, I do, you are going to get a tremendous amount from him as he comes back into the podcast. Today, we're going to be talking about something we refer to as orchestrating your short-term, midterm and long-term buckets.

You see, so often, what we find is people are only reaching for balance. In fact, our firm in the past has even talked about balancing the difference between certain areas of your finances. What we found after just really some rigorous inquiry, is that balance may not be what most of us are after. You see, we shoot for balance. It seems like a good idea.

Paul Adams: When you're balancing something, you might say to yourself, "I need to balance work and home life", or you may say to yourself, "I need to balance my relationship between my children", but I want you to think for a moment, "What does the word balance imply?" Balance implies two forces working against one another in equal and opposite ways in order to create the balance. Now you see, that's not what we actually want. I don't know about you, but I don't look at my faith life as equal to or opposite from my business. I don't look at my home life as equal to and opposite from my business or my career.

You see, we put ourselves in a real linguistic jam when we consider that at the end of the day, we are going for balance, but life doesn't even deliver us things in balance. Let's take an example. Winter is not a balance of summer. Your vacation should not be a balance of your work, right? You, when you're on vacation, you should just be on vacation, and so the idea of balance doesn't even exist anywhere in nature.

There's not a balanced relationship between the caribou and a grizzly bear. You see, what we have is orchestration, things working well

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together. Just kind of start off on today's podcast, I like giving you guys things that are immediately practical, but here's a thing I would have you think about. Forget your money concerns. Watch yourself using the word 'Balance', like you don't want to balance the needs of two employees on your team with one another.

What you want to be able to do is orchestrate effectively for your aims. Orchestrate all of those concerns, all of the resources to come together to get you and your family where it is that you want to go. Let's talk about the way that that would work in practical life or where we see orchestration. If you've never had the chance to do so in your life, and some people never have, go to watch an orchestra. That's where you're going to notice get there early, that everybody comes in, and they're all tuning up.

The violins are working through ... I don't know what it's called. I'm not a musician, but I enjoy listening. I enjoy watching them perform. The piano's doing some stuff. The horns are blowing out their spit tubes, or they're tuning their horns, or making sure the reeds are strong enough on the woodwinds.

All of that is going on, and it just makes the most god-awful noise, doesn't it? It just sounds awful. Then, what happens? The conductor's probably been up there for some time, and they're situating their sheets of music, and letting all of this go on. Then, that conductor takes that baton, and they tap the stand, "Tink, tink, tink", and they say like with that baton, they bring everybody together.

He orchestrates the orchestra, and suddenly, now there is this ... There's not a balance in different parts between those big, old timpani drums and the horns. Not at all. They're just orchestrated. Sometimes, the horns need to be strong.

Sometimes, those drums need to be strong. Our lives are no different. You shouldn't be balancing your health against your work. You shouldn't be balancing your work against your family, which by the way, the word 'Balance' implies two things, equal and opposite from one another. I don't know about you, but I've got more conditions of life that I need to worry about than just one or two. By some measure, I have a total of 13, so I've got all these different conditions of life I need to worry about.

I cannot balance them. They have to be orchestrated, and when you're talking about the things that you want to achieve in life, what's amazing is if you can get the same activity you're in to meet more than one aim, more than one of the things that are important to you in life. If you're going to try to get in better physical condition, then what you should do, if what you've got some other concerns for is, "Gosh, I also want to make sure I'm playing, and recreating, and I'm building social circles." Very good friend of mine has done that for years with soccer. He gets his physical activity, which you wouldn't do otherwise.

He gets sociality with these people he's been playing soccer with for years, and he gets the ability to, because he's now including his kids in some of the sports, so he has the ability to hit several of these conditions of life, and you may have thought of a few just in the soccer example, that he could take care of ... He's got play, sociality, fitness, like his health. All of that at play at once. We want to do some of the same things when it comes to our money, because if we simply try to balance short-term and long-term, we're unlikely to put ourselves in a position where we can actually be effective with our money. Now, let me give you an example.

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Now of course, I have no idea how old you are listening to this. That's not the kind of data we can pull from all the listeners of our podcast, but I just want you to imagine wherever you are today, in the way that people normally think about money is I'm saving money for retirement, and it's like the big priority is what people flag on. We talked about in the past, and we certainly have several videos on it in YouTube that it doesn't work. Retirement is a flawed concept because it's so far away, number one, and for the people that we work with, most of the people between like 300,000 and a million five of annual income as a household, and maybe some of you that are working your way to get on that band of income, you don't have any interest in retiring. How do I know that?

Because the amount of income you're likely to be making right now puts you in the position that you've got a great degree of expertise and passionate about what you do, but let's take retirement for a second today to the future. What are all the things you might need between now and the "Standard retirement age"? You're going to have a lot of needs for money and capital. You may have your children. Your children may need private elementary school, child care.

You may need to buy a bigger home. You may want to buy a vacation home. You may want to start your own business. You could be in a position where you want to pay for weddings, contribute to weddings, help children buy their first home, get yourselves new cars, you and your spouse take a sabbatical. There are a lot of things between now and the "Standard retirement age" that you would want to have capital for.

Let's think about that for a minute. How do most people organize their money? They organize it simply by taking today to the future. Now, let's look at how most people organize their money. Just two buckets, short-term, long-term. That's it.

They have money in short-term bucket. That's the things we'd be familiar with where it would be money that's liquid, money that's low-risk, *"The word balance implies two things equal and opposite from one another. I don't know about you but I've got more conditions of life that I need to worry about than just one or two."*

money that has generally a low-rate of return and high taxes. Then, we've got a long-term money. Our long-term money typically is illiquid, has higher risk, higher rate of return because we're going to leave it there a long time, but if we're going to get a high-rate of return, we're leaving it there a long time. It had better have some tax benefits, because if it doesn't have tax benefits, we're going to get eaten alive by taxes while it sits there and tries to grow over time, and this is where most people are left, balancing between two concerns, short-term and long-term money.

Now, what many, many advisors leave out and what many individuals leave out is the midterm bucket. Now, the midterm bucket, we don't know when it might need to be used. We might need it like right now, and as a result, it needs to have liquidity, it needs to be lower risk, it needs to have a decent rate of return because here's the thing, we might not need it for five or 10 years, so it needs to get a decent rate of return, certainly more than our short-term money because we don't know when we might need it, and it's got to have some tax benefits so we don't get eaten alive. That being the case, how do we handle that? We handle that by figuring out what a midterm bucket is. Now, we've talked in the past about a wealth coordination account, so picture yourself taking $80,000 a year, and now, what we have to do ...

This doesn't happen. I can't give you a tip or a trick about how to handle this just by the podcast, but we need to orchestrate based upon what you care about for the future, how much should be in each of these buckets. Certainly, you should have anywhere from three months to one year worth of expenses as a household in your short-term bucket. You need to have money in your long-term bucket, but at the same time, we need to be building this midterm bucket. Now, what are the things that make up the short-term bucket and the long-term bucket? We can go back to the profile of those assets and look at short-term assets.

Those are going to be cash, money market accounts, maybe a six-month CD, all short-term buckets, cash on hand, short-term bucket. Long-term bucket is things like 401(k), IRA, real estate investments. See, they meet all those profiles, illiquid, higher risk, higher rate of return, some tax benefits. All of those things meet the criteria of a long-term bucket, but the midterm bucket with its profile, what would qualify for it? There's two major midterm buckets we can access.

One is a non-qualified portfolio. Very simply, a non-qualified portfolio is a portfolio that you hold that's a set of investments. Hopefully, you're going down the path of having it academically allocated, globally diversified, but a bucket of investments that's in your name so you could access it if you wanted to. That's one thing that can be a midterm bucket. The other one can be whole life insurance.

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Now, for those of you that aren't familiar with whole life insurance, I would encourage you that most of what you've probably heard has been either inappropriate for you because it's meant for the masses, whatever it was you heard, and odds are, it may not have been based upon even a whole life policy. It is funny when our clients will bring an article to us, saying, "Are you sure I should be considering a whole life insurance because look at this article. It says it's terrible?", when the article is actually referring to universal life insurance. You can go through our seven-part series and learn more about life insurance than you ever thought you needed to know, and given it's one of the biggest transactions most people are in in their life is insuring their life, you should take the time to listen to those. That being the case, whole life insurance in the internal cash value can act as a midterm bucket, but as we've talked about on other podcasts and other videos, it must be built over time.

How do they do meeting these criteria? Your non-qualified portfolio is definitely has tax benefits, just starting from the bottom up here. It also gets a decent rate of return. If you built that portfolio with say an 80/20 allocation, then you're going to get that over time seven to 8% rate of return. It can be low-risk, but then we're going to lose some of the rate of return, but here's the more important part, it is variable.

It goes up and down over time. As a result of its variability, that also makes it not practically liquid. Technically, is liquid. You can go get the money. They'll sell what you have in the portfolio and get you the cash. Where it may not be practically liquid is consider that the money that's in the account, if the market just went down 20%, that might mean there's a great real estate deal, but you may not feel great about selling part of the portfolio at a 20% loss because you're locking in losses in a portfolio, losses you would not need to recognize if you didn't cash it out to buy another investment, so it doesn't quite meet the liquidity profile.

I may give it half a check mark under liquidity. Let's go to whole life. Whole life is liquid, relatively low-risk in terms of when financial planners look at the risk pyramid, it's slotted right next to AAA bonds or CDs, so it's very low-risk. Once it has a cash value, it cannot decrease in value. Market forces don't impact it.

There's a great white paper called 'Life Insurance As An Asset Class', that by the way is our giveaway today. You can download the white paper, Whole Life As An Asset Class right from our website. We'll email it straight to you, so you have that. In fact, before I finish and land this episode, perhaps we should pause for just one moment. Hey, everyone. I want to let you know I'm interrupting this podcast for a good reason.

If you're someone who's enjoying this podcast, if our philosophy is helping you better think about money, then this offer is for you.

"You never want to be in a position where you fund a policy so heavily that it constrains your overall cash flow."

We've opened up a financial inquiry call for our listeners of Sound Financial Bites. Our financial inquiry call is 15 minutes where one of our team will ask you some key questions, understand your concerns, and if appropriate, schedule you for a philosophy conversation with myself or Sound Financial Group's President Cory Shepherd. If you email us at info@sfgwa.com with 'Inquiry' in the subject, we will reply back to you with a link to our team calendar so you can schedule a call at a time that's least invasive for you. Even if we're not a fit, the team member having a call with you will point you in the direction of resources we have that can help you in whatever the next step for you in your financial journey is.

Now, back to your podcast already in progress. The whole life insurance also has a rate of return that's higher than your average, certainly money market account, et cetera. Over time, depending on how the policy is structured and the health of the person who owns it, you could be getting three and a half to as much as 5% per year growth on your cash value over long horizons of time. Now, their guarantees are lower than that, but that's based upon current projections in some of the lowest interest rate environments we've had in a very long time, so we have a rate of return. For those of you who are interested, Cory and I have two books slated that we hope to release in the next six months, one having to do with the importance of business owners paying attention to their business so that they build a personal balance sheet, and the second one is what we are ...

We don't want to give away the title because we don't want somebody to snipe it, but it's going to be about how to appropriately use a whole life insurance policy as a part of your financial picture because we meet people all the time who have them, who have not been told all the ways it can be used. If you use it properly on your balance sheet, integrate it with other assets, we can have the impact of the whole life insurance policy on somebody's balance sheet be equivalent of them getting like 10% somewhere else. Now, I don't ask you to accept my opinion on that or any of our opinions, but we are going to do some podcasts that are going to ground that out for you, and for those of you who have been our clients and walked through that before, you know that that has been true in your life, at least in the way we walk through the math, in the way it develops over time. Then, last but not least is tax benefits. Because the whole life insurance, the money goes in, after tax, it grows tax-free, and as long as we maintain that tax exempt environment called the 'Whole life insurance policy', we can actually move money in and out without tax consequence.

All of those things make whole life insurance a great midterm bucket, so we build a blend. Why do we build a blend? Let's go back and think about your wealth coordination account. If you're putting money into your

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wealth coordination account every month, and let's say for the sake of this example, you're setting aside $2,000 a month right now, maybe you work with our firm and you figure out some other inefficiencies in your life, and you get up to 4,000. $4,000 a month is going to your wealth coordination account. Why would we not take all of your money and deploy it all into just the whole life insurance midterm bucket?

It's because of the IRS rules. We need to fund that whole life insurance policy for a period of time for it to maintain all of the tax benefits that are laid out in 1982 and 1987's TEFRA, TAMRA legislation for the IRS, so we build the policy to ride that corridor, but what's important is it has to be funded over time. We never want you, and if you never become a client of ours, be clear on this, you never want to be in a position where you fund a policy so heavily that it constrains your overall cash flow, so we typically will have clients build their first midterm buckets using both whole life insurance and a non-qualified portfolio. That's it for today. What do I want you all to be able to take away?

One, I want you to be able to really think through and scrub the word 'Balance' from your language. In fact, maybe just share the first five minutes of this podcast with several people at your work, where you're talking about balancing different customer concerns, or share it with your spouse and say, "I no longer want to balance you and the family and my career." You may even want to share it with your pastor, or priest, or rabbi and just say, "Hey, could you listen to this because I want you to be able to help me no longer balance my life? I want my life to be orchestrated", which opens up a whole different realm of possibilities, how you might solve problems. For you today, along with the giveaway of the Whole Life Insurance As An Asset Class, which chapter nine of that paper will help you a lot in how whole life can make up a midterm bucket, we're also going to send you the slides that I use to just demonstrate what it is to have a short-term, mid term, long-term bucket and the criteria and how the non-qualified portfolio and whole life insurance meet all the criteria of a midterm bucket.

We're glad that you tuned in today. Once again, I need to acknowledge all of you because out of the 330 million people in this country, today, you took the time to invest back in yourself, back into your future, back into your family's future by simply and only coming into this podcast, being a student, learning, taking something away, and having the ability to engage your future differently, giving you the ability to design and build a good life.

Speaker 2: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, Soundfinancialbites.com, or email us at info@sfgwa.com.

Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.

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