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smart women in numbers

Four Expert Tips on Personal Finance for Executive Women

Contributed by Myra Salzer, author of Inheritor's Sherpa and *Living Richly: Seizing the Potential of Inherited Wealth*

Everything I ever needed to know about becoming financially independent, I learned from my grandmother's one-sentence motto. I can still hear her thick Hungarian accent repeat, "You can always live on 90% of whatever you make, and save the difference." That's it. Really! It's that simple. Makes you wonder what all the self-help, get-rich-quick books are about.

Yes, accumulation is simple. It's the keeping it that is tricky. Fortunately, everything I ever needed to know about preservation, I learned from Steve Henningsen, my business partner. Once it's accumulated, everyone wants a piece of it and there are more ways to lose it than self-help books at Barnes and Noble. In my grandmother's day, at least it could all safely be put into bonds. Not so today.

Even more complex, what if you were born "accumulated" – i.e., you inherited enough that you could afford to skip that long, drawn-out accumulation phase? The library of potential losses is many times greater than the likelihood for one who has spent decades accumulating because you have to preserve your accumulation for a lifetime, rather than the typical retirement years. That provides many, many years of opportunity to make mistakes. What can you safely do under those circumstances?

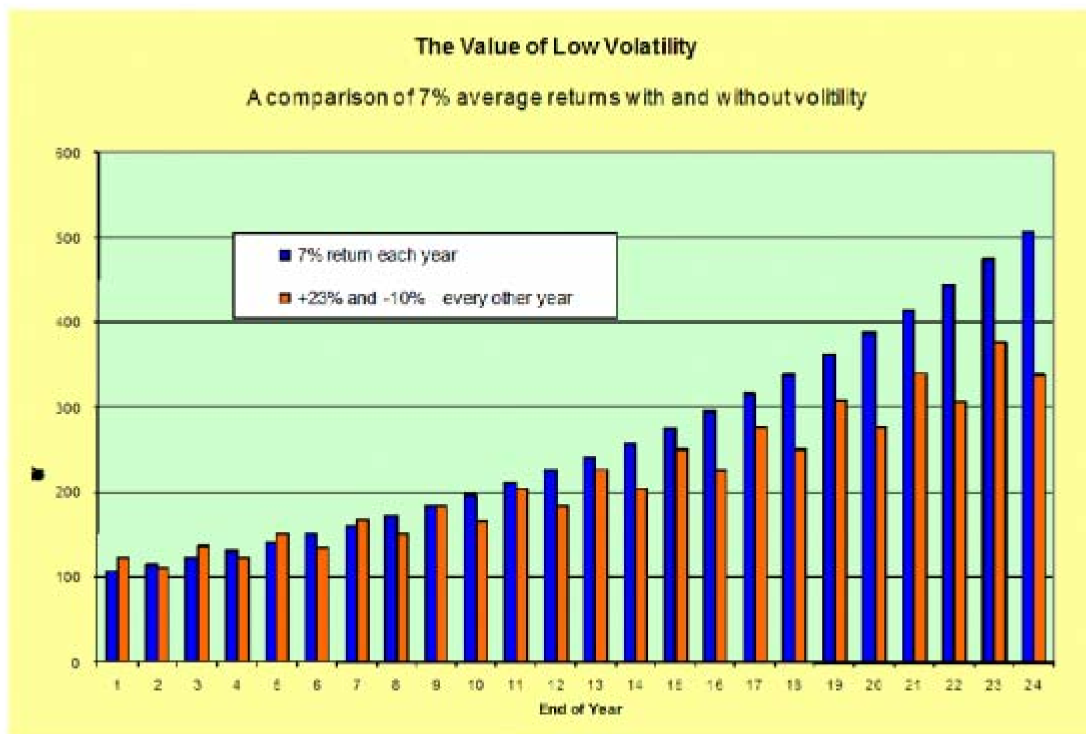
1. First – secure your "nut." There is a quick and easy way to calculate whether or not you have inherited enough to have your "nut" secure already. Can you comfortably live on one fortieth of your inheritance? For example, let's say you inherited $10 million. $10 million divided by 40 equals $250,000. If all your needs and wants would be met on $250,000 per year (after taxes and adjusting for inflation) then your "nut" is secure. All you need to do is invest in a manner that keeps up with inflation and spending. Of course, you'll miss out on the next hot IPO (initial public offering) and you will never again enjoy cocktail-party bragging rights boasting about your latest venture. But you will be secure.

2. Then – find an investment management firm whose intractable systematic approach is wealth preservation. (We recommend independent registered investment advisory firms that don't sell any products and who are not associated with any brokerage houses or broker dealers.) Remember, you don't need to make a killing in the markets when your "nut" is secure. You need only avoid losses. This isn't nearly as easy to accomplish as it was for Grandmother, but it is doable. Find someone with a global perspective whose analysis goes beyond the scope of modern portfolio theory and CFA (certified financial analyst) curriculum.

3. Make sure your investment manager is a fiduciary, a person or firm whose legal obligation is first to you, above all else. If the management firm is, for example, a

public company, the managers' first obligation is to the firm's shareholders, so they cannot possibly be fiduciaries. Demand that the manager agrees to a fiduciary contract.

4. Back to preservation: The following easy-to-understand graph demonstrates the value of a slow, steady approach. The graph shows two examples of 8% return averages, one with the investor realizing a boring steady 8% simple-interest return each and every year. The other scenario also shows the investor realizing 8% average over time, but in this case the investor realizes a positive 41% every other year, and a negative 25% on the alternate years. The average is also 8%, but the result is less wealth over time.



Living Richly: Seizing the Potential of Inherited Wealth, by Myra Salzer with Greg I. Hamilton, Legacy Publications LLC 2010, p.103

You may wonder how this could possibly be. The reason is that when you sustain losses, the percentage gain required to overcome them is greater than the percentage loss you realized. For example, if you lose 50% of your portfolio, you have to realize a 100% return just to break even! It's so much easier to just not lose in the first place.

So, simply put, if your spending requirements are 2.5% of your savings and investments (1/40th of the total), you have your "nut" and you merely need to invest it wisely, with preservation in the forefront. And if your "nut" is not yet secure, save 10% of your income until it is.

Myra Salzer is a financial planner and wealth coach at The Wealth Conservancy in Boulder, CO. She authored two books, Inheritor's Sherpa (2005) and Living Richly: Seizing the Potential of Inherited Wealth (2010).