Wealth Enhancement®

How Automation Makes You a Better Investor – and How It Doesn't

Money is emotional for a lot of people. And it's these emotions that often get in the way of saving for the future.

As a financial advisor, it's easier to look at someone's finances in an objective way. While you may be thinking:

- Do I really want to save this month?
- Don't I deserve to spend a little?
- But I really want to take this trip.

The importance of saving for retirement is clear and an easy choice:

- There are tax benefits to saving.
- Not saving now can result in needing to save even more in the future.
- There may be a way to take that trip *and* save at the same time! Don't forgo one important long-term priority for a short-term goal.

This is where automation can help.

Is Saving Really That Important?

As a financial advisor in Utah, I see it all the time: Someone is ready to retire, but they don't have enough saved to do so comfortably. According to a recent report, 40 percent of Americans don't have $400 for a financial emergency. Another report shows that one out of four Americans believe they can live on Social Security alone, but the average monthly Social Security payment ($1,390.12) falls well below the average retiree's financial needs – think healthcare, housing and your plans in retirement, be it traveling, relocating or simply maintaining your current, comfortable lifestyle when no longer working.

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Reducing unnecessary spending alone may not be enough. It's crucial that you actually boost your savings. The recent pandemic has made things even more difficult. At the height of the COVID-19 outbreak, it was reported that 50 percent of Americans didn't have enough emergency savings to make it through the pandemic. Contrary to popular belief, saving can be even more difficult for high-net-worth individuals – you may have more money now, but simply maintaining your lifestyle when no longer working can difficult.

That's a problem.

Set It, But Don't Forget It

Here's where automation can hurt investors.

While saving automatically on a regular basis can be a huge benefit, adapting a set-it-and-forget-it retirement strategy can have the opposite effect. Life changes, and it's important to review your plan, your strategy and your financial goals to make sure you're still on the right track.

What automation can do for you is help you save on a regular basis. But don't completely ignore your portfolio. Putting a financial plan into action is just the first step. It's just as important to review your plan to make sure it still makes sense over time. Life events, such as the birth of a child, a job change, or reaching a financial goal, can alter your financial picture significantly. Why continue to put money aside to pay off your mortgage if your mortgage is paid off? Why save for your children's college tuition if they've already graduated or received a scholarship?

At the bare minimum, meet with your financial advisor at least once a year to make sure your financial plan still makes sense.

A Real-Life Example: Matt & Christine

Setting it and forgetting it is a common mistake made by DIY investors.

Take clients "Matt and Christine." Matt was always a Do-It-Yourself-type of financial planner, and he had done pretty well for himself. When the couple came to Rock House Financial, they were about 15 years from retirement. The couple's debt was paid off, their mortgage was paid and they had saved a substantial amount for retirement.

But thankfully Christine wanted a second opinion.

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Turns out, while Matt had done a great job, we identified some blind spots that had not been considered. For example, the couple never looked at how much they actually needed for retirement, but instead just hoped that they were saving enough. They weren't aware of how much risk they were taking with their investments. And they hadn't considered taxes.

After reviewing the couple's plan, we showed them how much they really should be saving for retirement in order live the lifestyle they had envisioned. We also showed them how they could save a substantial amount in taxes over their lifetime by repositioning their savings, which ultimately gave them more money to work with.

In the end, they had a good plan and good willpower to save. But they had never reviewed their plan.

For illustrative purposes. Not indicative of any individual client experience. This information is not intended as a recommendation. Investment decisions should always be made based on an investor's specific circumstances.

The Takeaway

By automating your savings, you can safely see how your assets are growing every pay period, on a schedule. Your personal savings account will climb over time, and your portfolio's growth potential will consistently improve. If the market climbs, you can participate in market gains, and if the market declines, you can take advantage of lower prices. Most importantly, you're experiencing all of these solid financial improvements without lifting a finger.

But don't forget to review your plan!

There's not a one-size-fits-all plan for retirement. Rules of thumb may help the average DIY financial planner, but is your situation standard? For most people, the answer is no.

Discuss your plans with a financial advisor. Mistakes can be costly and can have a long-term impact. Don't underestimate the confidence that can come from having professional help with your plans. In truth, your wealth-building success will go only as far your financial discipline allows. Your earnings are important, but what you keep is most important. Automating your savings can take a lot of the emotion out of the equation, but an auto-pilot strategy to retirement won't update your plan if your life changes.

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If you're looking for a financial advisor in Utah or are ready to get a second opinion, schedule a no-obligation conversation with our team.



Nicole Roberts CFP® is a financial advisor for widows, divorced, and single women.

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