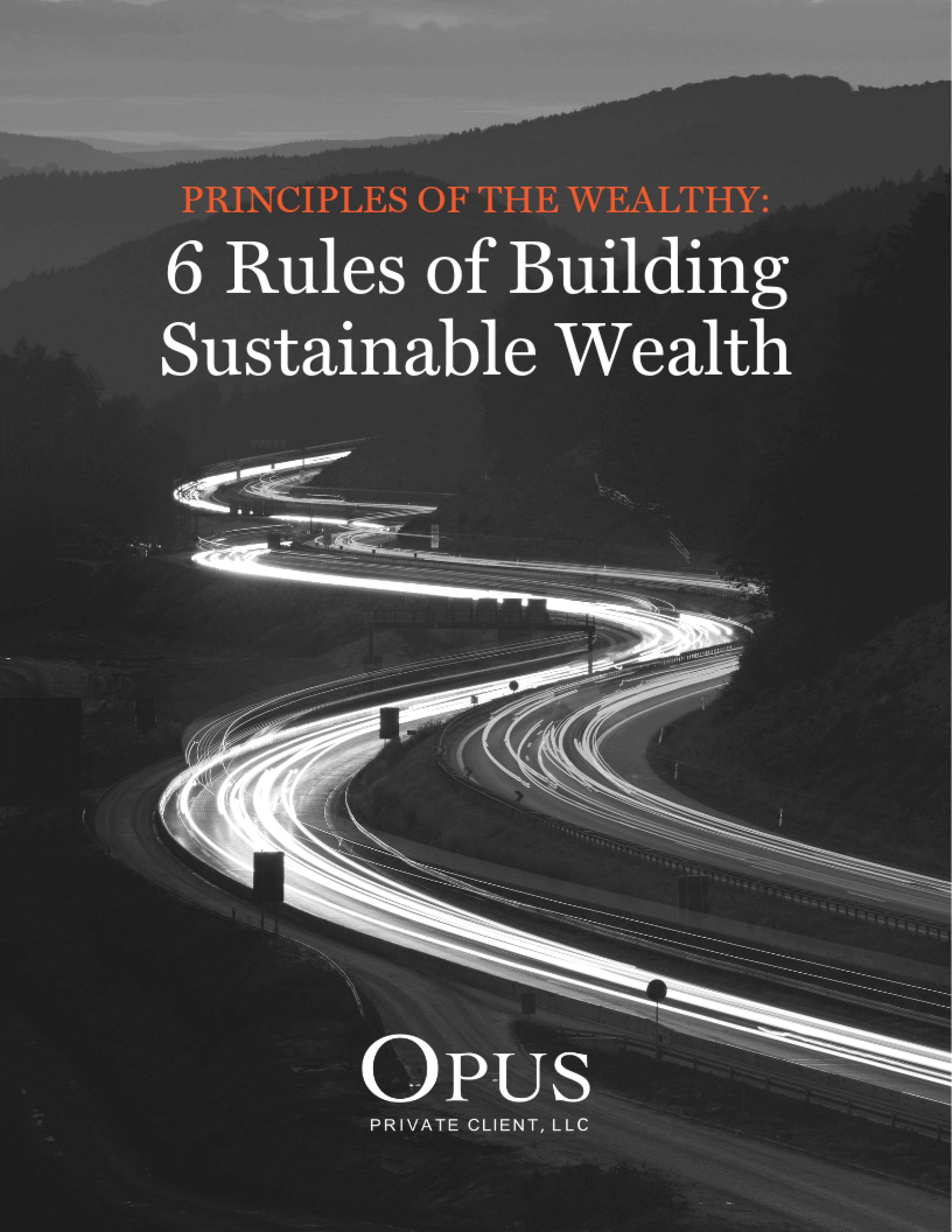
PRINCIPLES OF THE WEALTHY:

6 Rules of Building Sustainable Wealth



OPUS

PRIVATE CLIENT, LLC

When you are successful, it can seem like you do not have as much urgency for financial planning. After all, you already have the asset structure and income to fund your ideal lifestyle. You are already where you want to be, so a simple periodic “checkup” might be all that is required. Unfortunately, that could not be farther from the truth. When you have significant assets and income, planning becomes far more important. Why? You have so much more to lose, including your lifestyle.

In today’s world, there are more threats to your wealth than you may realize, including lawsuits, creditors, divorce, serious illness, inflation, geopolitical events, interest rates, taxes, down market performance, complicated family disputes, and, of course, poor advice. Despite these threats, the complacency of being successful often promotes very little action — until life happens.

We all have an idea of how our lives will look, but life always has surprises and twists in store for us (Figure 1.). For the best outcome, you need a plan that anticipates instead of reacts; it needs to be stress-tested and flexible so it can adjust and adapt as your life changes course.

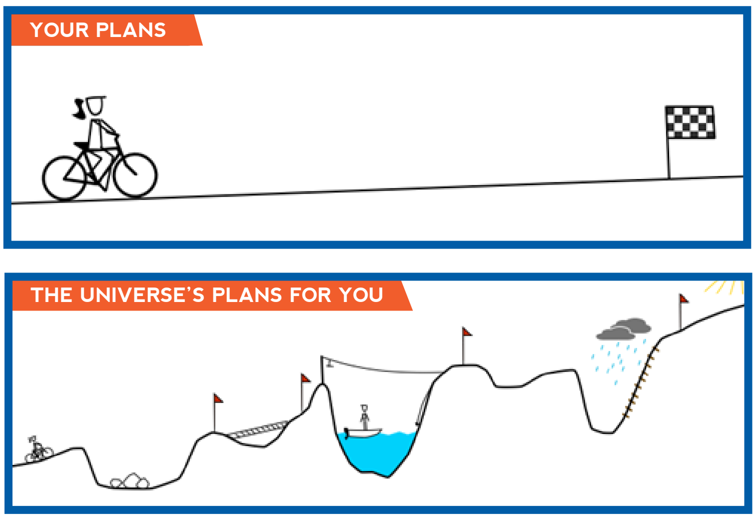


Figure 1.

When we look back over the past 30 years at our most successful clients, we see that they share similar habits. They have enjoyed consistent, yet somewhat conservative returns, which have allowed them to maintain a great lifestyle while having a positive impact on their families and communities. More importantly, they were consistently engaged and committed to the planning process.

Conversely, some clients that did not follow their plans had different outcomes. They often made rash decisions, chased the “next best thing,” and seemed to experience frequent turmoil and disappointment. By not adhering to the plan, they forced themselves on an endless treadmill to maintain their lifestyle. Some arrived at the same destination, but not without extra stress and hardship.

There are valuable lessons here for everyone. We have condensed our philosophy into 6 simple rules that can have a profound impact on your future. The key is to start now. The earlier you start, the greater the outcome. We hope you find this guide helpful. Please do not hesitate to contact us with any questions or comments.

To your continued success,
The Opus Private Client Team

Rule #1 Pay Yourself First...The Right Way

While this first rule can seem simple, it communicates a powerful truth. "Paying yourself first" means consistently putting aside cash prior to spending it, no matter what your income level or net worth is. This simple action increases your wealth throughout all market cycles and keeps you ready to take advantage of new opportunities. In fact, ourmost successful clients have one thing in common: *They saved consistently, every month, quarter, or year, without fail.*

Taking It to The Next Level

Putting money aside, is an essential practice but it is not enough. You must also make smart choices with the options available to you. Often people tend to put more money into whatever hot asset is front and center in the media. The trap is that they are tempted to chase returns often at the wrong time.

Like anything else, maintaining discipline is key. Our recommendation to clients is to create a plan in which you consistently save into several diversified buckets; those buckets might include cash, equities, fixed income, income producing real estate, and cash value life insurance.

While the specific recommendations will vary from person to person, saving in the right way generally means:

- Accumulating assets specifically *outside* of your business or industry to help you more effectively de-risk and recession-proof your wealth
- Include tax-efficient strategies, so you can keep more of what you make
- Use vehicles that preserve your liquidity, so you can take advantage of opportunities that might present themselves to you in the future

Benefits of Following a Plan

The key is execution. By continually saving into these pre-determined buckets, you will reap several benefits:

- You will build for the future while also maintaining access to cash in the present
- You will be ready to act on investment opportunities
- You will be positioned to weather most financial storms with less stress
- You will be making decisions from a position of strength and feel empowered

Rule #2 Protect What You Have Built

When you are financially successful, much of your effort should be spent on protecting your assets. Losses are just too difficult to recover and there are no guarantees in life that you will not encounter obstacles or hardships along the way. There are many ways you can lose money: business ventures, down markets, poor investments, etc. Some ways, like lawsuits, natural disasters or unexpected events, may be less in your control, but that does not mean you cannot protect yourself from their impact.

The Importance of Risk Management & Asset Protection

It is easy to think, *"It is not going to happen to me,"* but you literally cannot afford to think that way. The realities are:

- Accidents that change your life dramatically can happen at any time
- We live in a litigious society and, as a successful person, you are unfortunately a target
- A lawsuit does not need merit to cause you extensive financial and emotional distress

Fortunately, there are strategies to help protect your assets against these realities:

- Well-structured insurance policies to limit litigation loss
- Asset diversification and ownership
- Transfer of risk to third parties (e.g., personal or corporate sponsored programs)
- Strategies to deflect frivolous lawsuits and make you an unappealing target
- Strategies that protect your income in the event of disability
- Strategies that replace your "Human Life Value" to your family if you die
- Strategies that can help pass your assets with minimal or no taxes
- Asset protection — legal and trust work with your legal team

The Importance of Asset Location

Beyond asset allocation inside of an investment portfolio, asset location is also important. Having assets in various asset classes (e.g., investments, business interests, real estate, etc.) can help protect you against the unforeseen and the predictable risks that impact wealth.

The Importance of Doing it Now...Not Later

With this particular rule, you cannot afford to wait. Accidents can happen any time. The most successful clients follow through on implementing risk management and asset protection strategies well in advance of an event. This does not mean they lead perfect lives without negative occurrences. These clients experience ups and downs like many others, but because they are financially prepared and protected, the damage is far less significant and they are able to recover much faster.
Now is the time to address this topic and protect your assets and your life. Do not risk waiting.

Rule #3 Ride the Compounding Curve

The Amazing Power of Compounding

Compound interest is an amazing force. What is it? Basically, compounding involves earning interest on money invested in an account. Over time, each additional dollar of interest earned begins to accrue interest as well. This creates a wonderful snowball effect. While it starts slow, growth accelerates exponentially over time contributing to your wealth (Figure 2.).

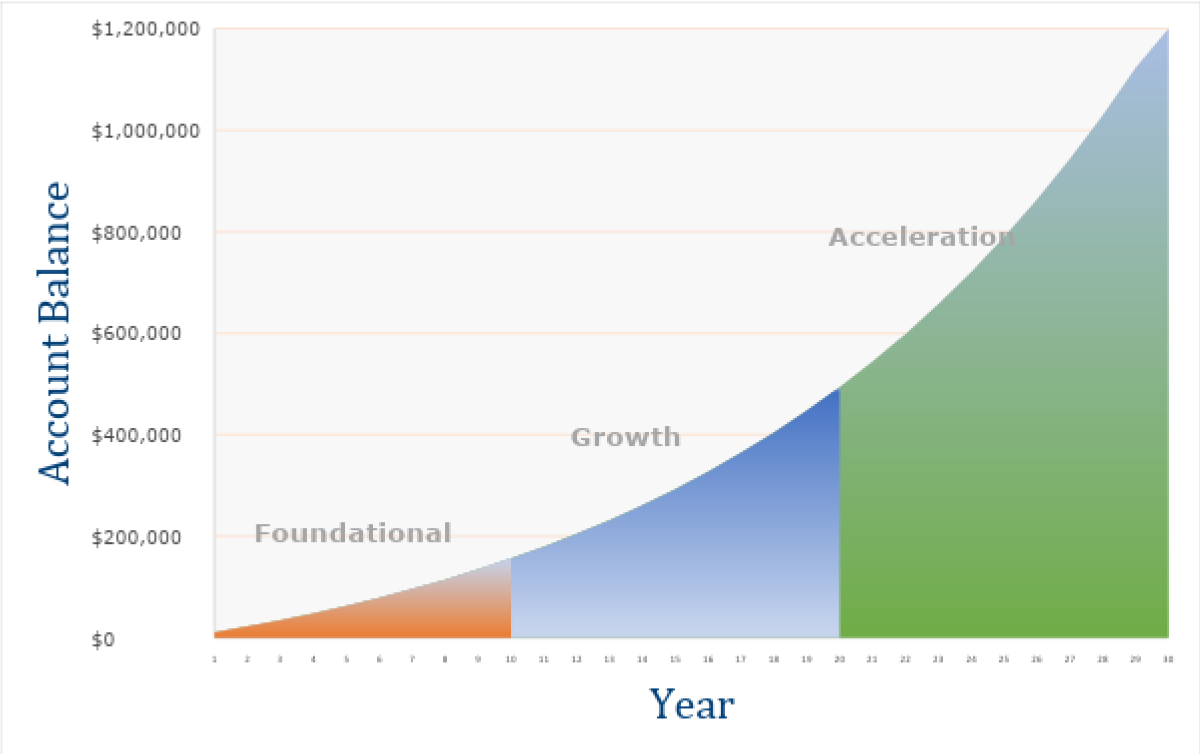


Figure 2. Compounding Curve

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Throughout the three phases of the curve, the snowball effect exponentially grows with time. The asset gains interest and growth compounding itself along the way. To reap the benefits of the curve, we must ride it through to the acceleration phase where the most powerful and impactful accumulation takes place.

Slow, Steady, & Uninterrupted Wins the Race

Compound interest can be a tremendous accumulation tool. The problem is that most people do not stay on the compounding curve long enough to capture the maximum outcome. Instead, many people will start and stop for a variety of reasons shortstopping the magic of the curve. For example, people will invest for college for 18 years, then suddenly liquidate the account when it is time to pay tuition, which forces them to start from the beginning of the curve as they continue their next phase of investing. Or they will keep their money in stocks and then liquidate a portion to buy a house. Unfortunately, interruption short-circuits the growth. Any portion of cash removed reduces the power of compounding, changing the course forever.

While the need to access money over your lifetime is obvious and important, what if you could continue to enjoy the benefits of compound interest by accessing your money another way? There is a way to do this. It must be handled with care, but for wealthy people, it is just a matter of choosing the best strategy and structure and then carefully implementing the plan.

Planning to Stay on the Curve

It is often said that the best way to pay for anything is with someone else's money. The concept of leverage allows us to keep our assets growing on the compounding curve, while utilizing their value for wealth creation elsewhere. Real estate loans, margin loans, and cash value lines of credit are all examples of tools you can use to leverage assets.

For example, when you take a home equity line of credit from a piece of real estate, the value of that asset continues to grow based on the gross value, not off the gross value minus the loan. You can then take that loan and create additional assets elsewhere. It is important to consider all factors when utilizing leverage and manage the entire process carefully. Liquidity, interest rate risks, terms, and cash flow must all be evaluated and carefully managed in an all-encompassing plan.

Appreciating and taking advantage of the power of compounding is key to building sustainable wealth.

Rule #4 It Is Not What You Earn, It Is What You Keep

Growing your assets on the compounding curve is important, but also necessary since there are always going to be factors that chip away at your financial assets and returns. In your financial planning, it is critical to include strategies to mitigate these factors so you can keep more of the money you earn.

Below is a schematic (Figure 3.)1 showing the "real" rate of return for someone who invested $100 in the S&P 500 in 1984. While the account accumulated to $2,510, the real rate of return was only $639 once you apply all the financial headwinds of the vehicle (e.g., fees, taxes, and inflation).

These factors are rarely discussed when considering an investment, but they are real.

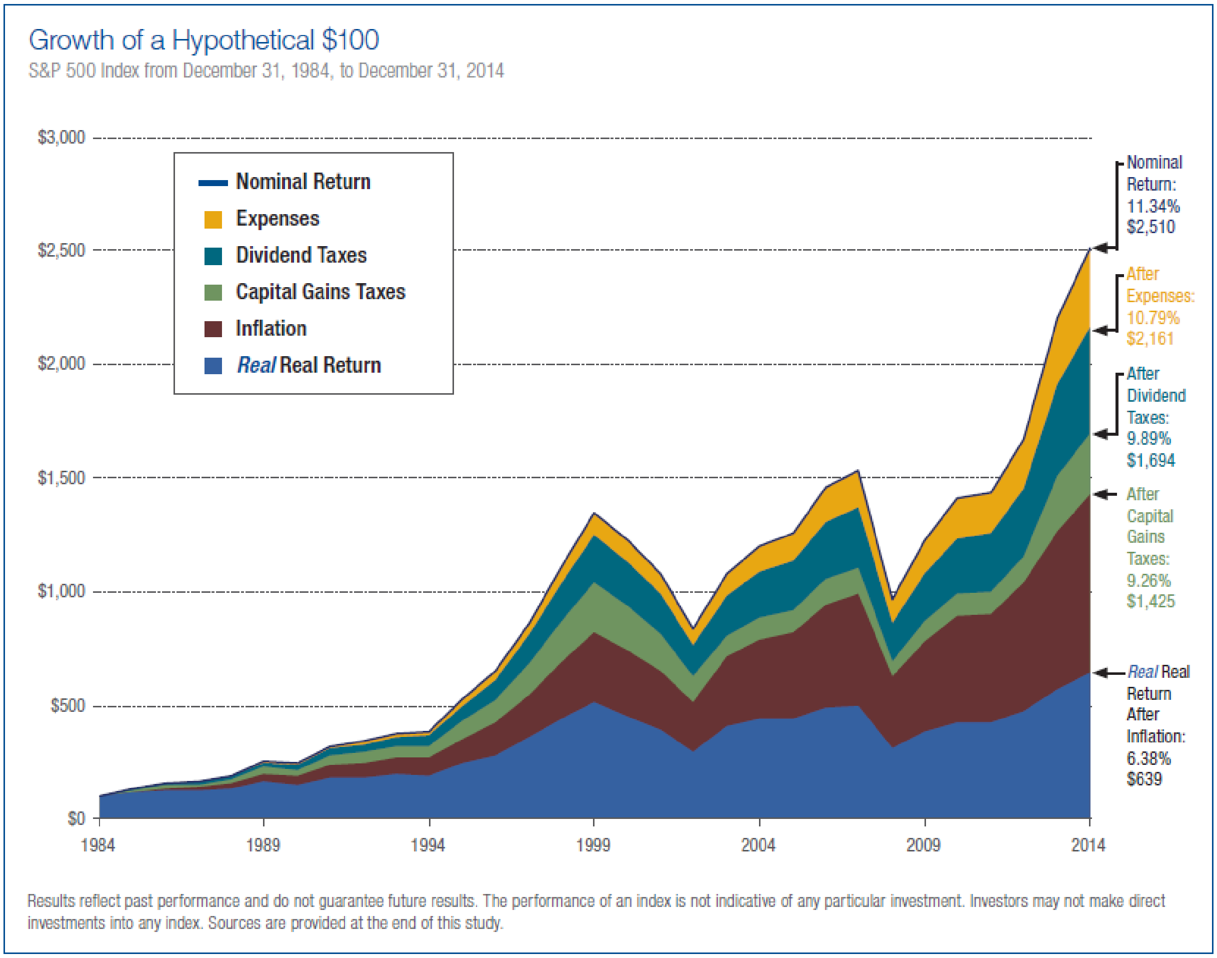

Figure 3.

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Wealth Eroding Factors that Impact Your Assets

Taxes: As our government faces astronomical, almost insurmountable debts, our incomes, investments, estates, and assets become a target for additional tax revenue. The government continually changes the rules of the game. We saw this in 2018 with the new limitation on deductibility of state and local taxes. Previously, there was no limit to deducting your state income and property taxes. However, we are now suddenly limited to a $10,000 per year cap.

Tax policy changes like these absolutely have an impact on your wealth. What if you had just purchased your first home in the first quarter of 2018 to only later learn of this tax law change? It's possible that you would have been better off renting instead of buying.

Ironically, while most of us complain about our taxes, we are in one of the lowest tax environments in history (Figure 4.) [2] considering marginal tax brackets reached 92% at one point. Our belief is that taxes in this country will have to rise, and your asset accumulation and diversification plans need to be prepared to address that very real possibility. Therefore, it is important to diversify across tax-free and tax-deferred asset classes as well as taxable ones.

Historical US Marginal Tax Rate 1913 – 2019

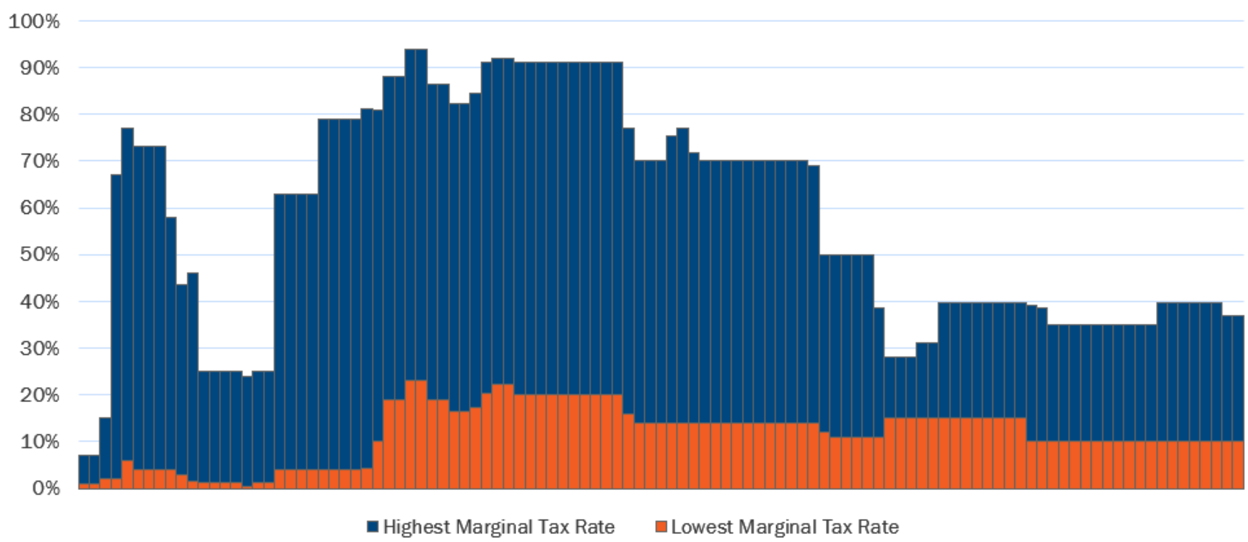

Figure 4.

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Inflation: Many of us remember a day when the cost of a movie theater ticket was $5. Today it is $15. Why? Inflation! The cost of goods and services has and will continue to rise over time. You and your assets need to be prepared for the ever-increasing cost that will erode your accounts. Your money today will not have the same buying power 15 years from now. Your accounts need to grow at a rate over or above the inflation rate to counterbalance it.

Entirely New Expenses: If you retired 20 years ago, you probably didn't budget for a new smartphone and the accompanying monthly service bill. Today we cannot imagine our lives without them. There are probably other things we will need or want in the future that we cannot anticipate, and we will certainly want the financial ability to incorporate them into our lives.

Longevity: With advancements in medicine and bio-technology, our lives are getting longer. In 1980, the average life expectancy of a newborn was 73.7 years3. By 2014, it increased to 78.9 years[3], but your life expectancy may be considerably longer. A 2016 study by Penn Wharton[4] found that, on average, individuals with a college or advanced degree live over 10 years longer than those without a high school degree. There is an even more dramatic shift in longevity; compared to just 25 years ago, 52% more people are surviving to age 85 and over 91% more people make it to age 95[1]. Our assets must support the quality of life that we are accustomed to. Our money needs to last longer than generations before us had ever planned. This makes the financial planning process all the more important.

Market Risks: Since markets are cyclical, there will always be ebbs and flows that cannot be accurately predicted. And just like our lives, we have very little control over the way these markets perform. In an age where the world is more connected than ever, a simple tweet, picture, social media post, or comment can impact our global markets. Rapid spikes and changes can occur, making patience, discipline, and cash management more important than ever. It is critical that your financial plans are structured so that your assets are sustainable.

Rule #5 Diversify Your Income Sources

Say you do everything right: you diligently build your retirement accounts, you run projection after projection to confirm that you can support your lifestyle for as long as you live, you have thoughtfully budgeted, factored in inflation, built in some cushion, and there is even some wealth left for the grand-kids!

There is one factor that many people and financial plans often omit: in what market cycle will you retire? Have you planned for the potential *"Sequence of Returns Risk"*? Sequence of Returns Risk can mean the difference between outliving your assets or your assets outliving you, but it is one of the most overlooked aspects in retirement planning because it requires a complete paradigm shift.

Look at any investment sales pitch; they all tout their ***average returns*** over the past 10, 20, 30 years. However, it is unrealistic to assume the exact same return every year for 30+ years... Have you ever known the market to produce the exact same return even two years in a row?

The market goes up, the market goes down, but over the long run, you stick it out because there should be more years on the up-side. You gauge your success on what your accounts have averaged over time. While you are accumulating assets it does not really matter when you have the up years or down years, only what they average over time. Here is an example (Figure 5.):

	Portfolio 1		Portfolio 2	
Year	Value	Return	Reverse Return	Value
	$1,000,000			$1,000,000
1	$1,140,000	14%	-10%	$900,000
2	$1,231,200	8%	-3%	$873,000
3	$1,514,380	23%	10%	$960,300
4	$1,665,810	10%	23%	$1,181,170
5	$1,615,840	-3%	8%	$1,275,660
6	$1,454,260	-10%	14%	$1,454,260
		7% Average	7% Average	

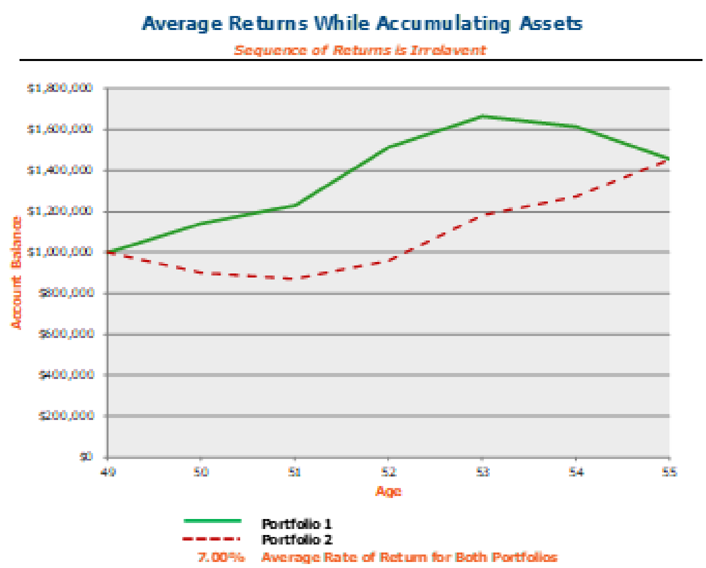

Figure 5.

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Notice that both portfolios averaged 7% and the ending values are identical. The sequence of returns is irrelevant. However, when you retire and switch from accumulation to withdrawing money from your accounts, suddenly the sequence of returns matters ***significantly***.

Negative returns early in retirement can be devastating. Here we revisit the same twoportfolios (Figure 6.), but this time we will take a 6% annual distribution adjusted for inflation and repeat the same returns every six years. Both portfolios averaged 7%, but now, the timing of those returns matters. Portfolio 2 started down 10% and 3% the first two years and never recovered. The account was depleted after just 20 years.

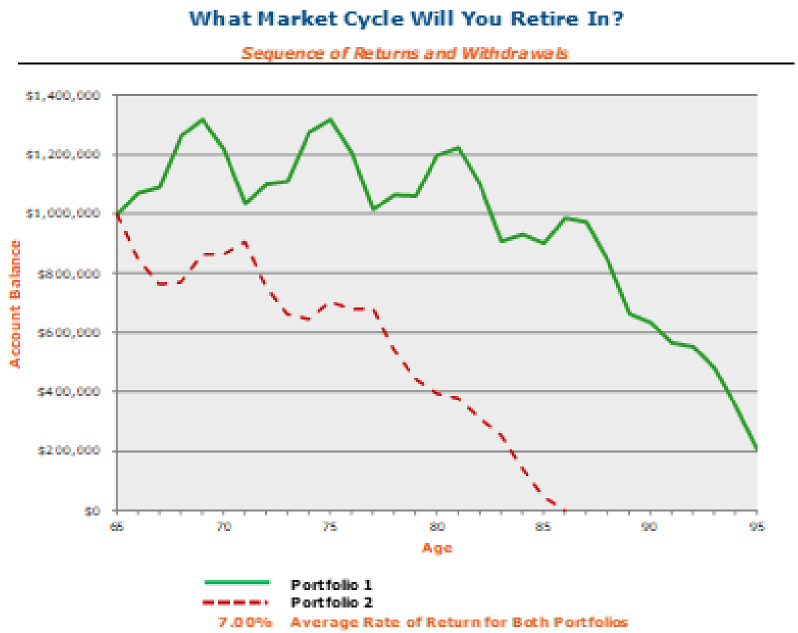

Figure 6.

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A period of market losses occurring early in your retirement can have a devastating impact on the income generation capability of your assets. In fact, the sequence of returns can be more significant than the actual returns you realize on your investments.

Of course, it is impossible to time your retirement to coincide with a string of good market years. You must plan for the possibility of a down market in those critical early years. Having alternate sources of income that are unaffected by the market allows your portfolio time to recover.

We use the example of retirement because it has the additional risk of being too late to adjust, but sequence of returns risk can happen any time: paying for a child's education, an unexpected catastrophe, or even an incredible opportunity. You should strive to always have multiple options for accessing capital because you may not be able to control when you will need it.

Rule #6 Find Your Team

Our most successful clients always have a team they can rely on. The team needs to keep you accountable and disciplined and act as a check-and-balance to keep you on track. In the early years, it may just be you and one team member, but as your wealth grows, building a team of trusted professionals with diversified disciplines working together is essential for long-term success. A diversified team also allows for collaborative thinking, new perspectives, and efficient execution.

You also need skilled professionals to keep you current because none of us can be our own financial planner, risk manager, or expert in taxes, investments, or legal matters. Building the right team can be a game changer that minimizes your stress, creates a better life for you and helps you reach your goals.

What specialists do you need on your team?

- Accountant
- Investment Advisor
- Insurance Professional - Life, Disability, Corporate Benefits, and Long-Term Care
- Property and Casualty Professional
- Estate Planning/Business Attorney
- Banker

No one firm can be all things to all people, but the most successful people often look for these characteristics, qualities, and practices in their team members:

- Referred to by a friend, colleague, or other trusted advisor
- Transparent about fees and offer a clear explanation of how they are compensated
- Provide objective advice without conflicts of interest for any particular product
- Subscribe to their own recommendations
- Have a willingness to share their balance sheet
- Offer data aggregation tools
- Readily available with semi-annual reviews at a minimum

Identify the Alpha Advisor

One of the professionals on your team has to emerge as the Team Leader. This is the person that has the skill set to coordinate and monitor all of the data and professionals to ensure that everything is aligned for your maximum outcomes. Take your time and do your due diligence. Choose well and you will have a team in place to help you create, execute, and monitor a plan for years to come.

Constant Monitoring

Once the team is assembled, you *must* stay engaged:

- Hold the team accountable, especially the investment advisors
- Communicate often
- Always review your statements as they come in
- Keep a close eye on expenses and fees
- If you do not understand something fully, ask questions

About Opus Private Client, LLC

It is very simple. We have changed the conversation from product to process. We create measurable value and our performance-based process keeps us accountable to you.

For over 30 years, we have acted as the lead advisor for our clients. Our process incorporates and embraces all of your team members, advisors, existing products, documents, and past recommendations. Through our holistic planning model, we analyze and identify potential blind spots, dangers, and opportunities. We create strategies aimed at protecting and maximizing your wealth.

Headquartered in New York, Opus Private Client, LLC. has a team of 20 dedicated professionals.

Take the opportunity to move your wealth forward. Find out if we are the right team for you.
Visit us at **www.opus-pc.com**

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