



WEALTH FRICTION AND “TRICK”

By Mike Kura, RFP®

I want you to try something: Put your palms together and rub them rapidly for a few seconds. What do you feel? What you’re feeling is warmth, caused by friction.

Warmth caused by friction can be a good thing—but not for an engine of a car. Inside an engine, friction is a very bad thing. It steals energy and causes your engine to wear out sooner. The same goes for your wealth engine.

There are a few not-so-commonly recognized sources of friction in everyone’s wealth engine that are causing dollars to leak out. We will use the acronym TRICK to help us remember what those areas are:

TRICKING YOU OUT OF YOUR MONEY

TAXES

RISKS

INVESTMENT MIX

COSTS

KNOWLEDGE BLIND SPOTS

Taxes

First, unnecessary taxes cause a tremendous amount of friction. Taxes are really stealing our wealth. The challenge with friction is that it’s unseen. We often don’t even know it’s been going on until the damage has already been done.

With thoughtful and careful wealth planning, unnecessary taxes can be avoided, which ultimately protects from irreversible costs.

Risks

The second source of friction is unwarranted risks. Many people are taking more risk than they are comfortable with and more than is necessary to sustain their preferred lifestyle. Instead, they could be taking a level of risk that is more accommodating to their emotional needs. Depending on their risk tolerance, this can help to protect from substantial downturns in the market that come at the most

inopportune time. Exposing their accumulated wealth to a higher risk than is necessary could significantly hurt the opportunity of meeting their financial retirement goals.

Investment Mix

The third cause of friction is your investment mix.

I remember driving with a friend of my moms who was older and, therefore, nervous about driving. She would drive by putting one foot on the gas and one foot on the brake at the same time. You can imagine how that felt.

When you have the wrong investment mix, it's like you are pushing the gas and the brake at the same time and don't even know it. The wrong investment mix wastes so much energy and money, and it causes tremendous damage and power loss to your wealth engine. The last thing that an investor wants is for their investment objectives to work against each other and not be in sync together. With holistic planning, this can be avoided.

Costs

Next up are unnecessary costs, and more specifically, unknown costs.

Most people are unaware of the true costs of running their wealth engine. Unforeseen costs that come with retirement such as long-term care can be avoided through planning ahead. This will create protection from costs that can dwindle away entire retirement savings.

Knowledge Blind Spots

The final source of friction comes in the form of knowledge blind spots. We don't know what we don't know.

What you don't know is hurting you and causing damage to your engine. The answer to this problem is not watching more MSNBC or reading the Money section of The Wall Street Journal from front to back. Often, this can simply be "noise" that distracts from the real issues at hand. Professional financial advice can help to clear away the fog and reveal the blind spots in your financial picture.

Friction is a killer when it comes to your car's engine. The same applies to your wealth engine. Solving the problem doesn't mean simply removing the friction; it's about tuning for maximum efficiency.

Think about the difference between stop-start city driving and highway driving: Your engine is most efficient when it is out humming on the highway at about 58 to 60 miles per hour. When you get off the highway and start and stop in city traffic, you start to burn through gas much more rapidly, and the wear and tear on your engine increases as well.

It's time to stop the friction and tune for efficiency. ■



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