Chapter 10

THE PORTFOLIO ALIGNMENT ASSESSMENT

"You cannot rise higher than your foundation allows."

– Mike Decker

This will likely be the most important chapter in the entire book.

Why?

Because of something called the Dunning-Kruger Effect. Simply put, the Dunning-Kruger Effect explains why people tend to overestimate their own abilities. It's so easy to have high expectations, especially after a few good years in the market. It's not just your average investor who suffers from the Dunning-Kruger Effect. Financial professionals are guilty of it as well.

Greed is a powerful emotion. I do not want you to fall victim to these emotion-based traps. Remember, I want to help you.

Once you create your plan and you pick which type of Kedrec Reservoir™ you want, based on the assessments and explanations in the last chapter, you should be ready to compare what you need with how your portfolio is currently allocated. We want to use what you already have, as best as we can.

It's time to jump in and run an assessment, based on your current portfolio. Basically, we are looking to see how much you have at risk (growth potential with liquidity), how much you have in products that can be used as a Kedrec Reservoir™ (growth potential and protection), and how much you have in cash (liquid with protection).

Take a moment and fill out the graphic below. We are only looking for the current cash value of each investment or product. For example, if you have term life insurance, the cash value is $0. If you had cash value life insurance, it would be the total cash value amount, not your death benefit. Stocks, ETFs, Mutual Funds, and so on would be based on current market value. Use the descriptions on the left to organize which investments would go where on the chart.

	Total Value
Liquid & Principal Protected (Checking, Savings, Money Market, etc.)	
Growth Potential & Principal Protected (U.S. Treasuries, CDs, Fixed or Fixed-Indexed Annuities, Cash Value Life Insurance)	

Growth Potential & Liquid (Stocks, Mutual Funds, ETFs, Variable Annuities, etc.)	

If you have more than 6 months of income in the first group, the liquid and principal protected group, you may have too much allocated into accounts that tend to struggle keeping up with inflation. They say cash is king when markets go down, and cash is trash when markets go up. You cannot time the market. It's worth asking the question, "Why do you have so much in cash?" If you are waiting for the markets to turn around and start going up, you may have missed the point of the Kedrec Reservoir™.

Speaking of which, let's address the second group, growth potential and principal protected investments and products. This group represents your Kedrec Reservoir™. This is what is supposed to give you comfort and protection while you enjoy its growth potential.

If the number in this second group is less than the number you calculated in the exercise before, based on the portfolio design you picked (e.g., Smaller Traditional Reservoir, Larger Traditional Reservoir, Larger-Ladder Reservoir, and Smaller-Ladder Reservoir) then chances are you're taking too much risk. There may be some adjustments that need to be made for this to be set up correctly.

If you need more allocated in that group, consider adding U.S. Treasuries, CDs, Fixed or Fixed-Indexed Annuities, or Cash Value Life Insurance. If you want to consider Fixed or Fixed-Indexed Annuities, or Cash Value Life Insurance, you will need to go through a licensed insurance agent. I would recommend you work through someone who is independent and does research on rates and current offerings (like what we do at Kedrec).

Moving on, the last group, which represents your investments that traditionally have the highest growth potential, is whatever is left over. These investments are intended to help you keep up with inflation while potentially growing fast enough to help support you and your needs later in the plan.

So, how did you do?

Do you have a reservoir big enough to support you and the lifestyle you want?

If you need to make some adjustments, that's okay. That's the point of this exercise. We don't want to assume everything will magically work itself out. We also don't want to base our entire future on our ability to outsmart the market. Just like you have flashlights around the house for when the lights go out (or a generator), you have a reservoir for when the markets go down.

The Basic Tax Assessment

Putting a portfolio together is more than a look at the investments themselves. There's another layer of complexity that many people miss. There are essentially three types of accounts your assets could be in; Pre-Tax accounts, After-Tax accounts, and Tax-Free accounts. Where your money is, based on these accounts, can have an impact on how you set up your portfolio. Before we go any further, please fill in the total values below based on how much you have in each tax category.

	Total Value
Pre-Tax (401(k), IRA, 403(B), etc.)	
After-Tax (brokerage account, checking/savings, etc.)	
Tax-Free (Roth-IRAs, cash value life insurance, etc.)	

If the majority of your assets are in the pre-tax bucket, taxes will most likely be a problem that needs to be addressed. If taxes go up, your overall income could go down. That's a problem. In order to address this potential problem, it may take several years of planning and execution. As the expression goes, the only way to eat an elephant is one bite at a time.

If you are actively trading in your account, and/or using dividend-based investments in your after-tax accounts, short-term capital gains may be an issue in retirement. Sure, anytime you pay short-term capital gains, you are making money. However, it could stunt other tax-minimization strategies, ultimately making the overall tax-minimization effort less efficient. There's no such thing as a perfect investment strategy. We want to do what we can to help ensure that the multiple strategies implemented do not conflict with each other.

In Conclusion

As we wrap up, I want to mention that this assessment is an oversimplified exercise intended to help put the big picture into perspective while connecting a few dots. Please be mindful that you will most likely feel a bias towards what you have currently allocated in your portfolio. It is familiar, and we as humans tend to prefer what is familiar. Just because it may be familiar doesn't mean it is right, it just means that it is familiar.

If you want a more in-depth analysis, consider booking a call with my team and requesting a more in-depth Your Wealth Analysis by going to www.kedrec.com/call.

They do this day-in and day-out.

We want to help people, like you, retire on time or potentially sooner.

We are almost done.

I'll see you in the conclusion section.