

New Year, New “FINANCIAL” You

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At the beginning of a new year, many of us (myself included) look to get a fresh start in various areas of our lives. Among other endeavors, we try to get organized, sleep more, cut down on the red wine consumption, eat better, (re)start a fitness regimen, and develop our business goals.

Judging by the number of inquiries I receive from prospective clients at the beginning of each new year, I think it's safe to say a good number of us use this time to finally get ourselves on more solid financial footing. More than any other time of year, January is the month in which I get the most requests to take a “big picture” look at people's financial situation, also known as Financial Planning.

Financial planning is a great way to get your financial “house” in order. The financial planning process starts with identifying your life priorities, and is designed to help you identify gaps in your financial picture. Once these exposures are identified, you can work with your financial advisor to address them.

Unfortunately, many financial advisors and planners offer what I (and others in the industry) refer to as “financial planning lite” — a very cursory attempt at financial planning, often offered as an up-front enticement to convince a prospective client to let the advisor manage their investment portfolio. This “lite” version of planning typically deals only with the client's basic goals and investment outlook.

So what should a true, value-added financial plan include? For most people, a thorough financial plan will have many of the following components. (Note that this is not an exhaustive list, as your situation may require additional analysis).

- **Household Budget.** This analysis calculates the difference between household income and expenses.
- **Emergency Savings Plan.** Three to six months, or more, of cash in a savings account is important to cover emergencies, such as an unexpected job loss.
- **Statement of Financial Position.** Also known as the “Net Worth Statement”, this calculates the difference between what you own and what you owe.
- **Financial Independence Analysis.** This exercise determines at what age you may have the option to continue working or not, given different savings and Social Security strategies, and your vision of your ideal retirement.
- **Tax Planning.** Careful planning throughout the year can help you reduce the taxes you pay and as you strive to achieve your financial goals.
- **Education Planning.** This involves saving for your education or that of a loved one.
- **Estate Planning.** It is critical to put into place the correct documents and to title assets properly to ensure the orderly disposal of your estate upon your passing.

Your estate plan may also include strategies to minimize potential federal estate taxes.

- **Lifetime Gifts to Individuals and Bequests to Charity.** This involves structuring gifting vehicles, and assisting you in deciding how to attain the most impact per dollar gifted.
- **Insurance Planning.** Examine the sufficiency, quality, and cost-effectiveness of your existing insurance coverage, and identify if there is a need for coverage where none currently exists. Types of coverages considered includes life, long-term care, disability, auto, homeowners, umbrella, and others.
- **Contingency Risk Analysis.** Examine the potential need for identity theft protection, a financial emergency kit, prepaid legal services, a prenuptial agreement, and other risk management vehicles.
- **Employee Benefits Analysis:** Evaluate the benefits available to you through your employer and choose those most appropriate for your needs.

All of the components of your plan should be integrated with each other and with your **investment plan.** In addition, your financial plan should be a collaborative effort between you, your family, your financial advisor, and your other advisors (CPA, attorney).

Most importantly, the plan should be aligned with your priorities. For many of us life is a series of trade-offs, so your plan should help you make financial decisions that are in line with the values that matter to you. Because it's not just about money, it's about your life!

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Lisa Strohm is Founder and CEO of The Athena Network, a financial and life management firm providing financial planning and investment management for women, their spouses and extended families. The firm also researches and vets other professional services for clients. Lisa earned a B.S. from Bucknell University and an MBA from Cornell University. She is a CFP® certificant and has passed Level 1 of the CFA exam.



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