

WHAT TO DO WHEN YOU COME INTO MONEY?

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So you've come into some money. Maybe even a lot of money. Now what? You know your finances will change, but what about emotions? Friendships? Decision-making ability? Long term net worth and cash flows?

Often when individuals receive an inheritance or other windfall they are surprised at the new issues that come with it. They are not prepared to deal with a windfall. They may have to see themselves in new light. This takes time.

A windfall is often the only shot at having a significant amount of money to invest for future income and need. This is a real opportunity. It is almost always lost unless there is careful thought and guidance.

Many financial and legal professionals have worked in these situations. There are many journal articles, books, and websites on this topic. This paper looks at things to consider when you come into money.

EMOTIONAL/RELATIONAL CONSIDERATIONS

Understand your financial limits. A windfall can feel almost unlimited at first. The problem is that if someone lived beyond their means before, they will also do so after the windfall. Every barrel of money has a bottom.

Don't "spend" it before you have it. Often people mentally spend the money over and over again, waiting for the chance to actualize their fantasy as soon as they receive their checks.

You may feel a need to "equalize." People can over share for psychological reasons. They may want to avoid being different or want people to like them afterwards. This is a classic area for making regrettable mistakes.

You may have feelings of guilt or be paralyzed by fear of making a wrong decision. Someone I love had to die to give me this inheritance. I don't deserve it. I don't want to let down my parents.

Beware of family and friends who "come out of the woodwork." Once you have more money than

relatives and friends, it is common for people to approach you about loans, business deals and investment opportunities that are "guaranteed" to pan out. Many will gladly write you promissory notes. Be careful. You can lose every penny and then some.

It's better to allocate the dollars into a trust or other arrangement where you can get at it if needed, but not so easily that you can lose or invest your money haphazardly.

Know your financial personality. Know if you hoard money or if you spend it too freely, or in amounts beyond your income. Assess honestly.

Be prepared for a thousand opinions. Most people will not sympathize or empathize with you when you have problems (and you will still have problems.) There could be signs of scorn or envy. Others will second guess you.

FINANCIAL/PLANNING CONSIDERATIONS

Take a time out; Decision Free Zone (DFZ) for at least three months.¹ Give yourself time to fully grasp your new financial situation. If the money comes during this time, just park it in a safe, interest bearing, and liquid environment

Choose an advisor. This is the one decision made during the DFZ. The right advisor will have your best interests at heart, and will focus on creating a long term strategy to help preserve and grow your money.

Get a will or trust and Powers of Attorney. Create your estate planning documents.

Review your life insurance needs. Protect your loved ones if you die.

Keep your spending in check. Create a spending plan you can live with over the long haul. Get your bearings and pin down your priorities. Include some fun items.

Make sure you get long term benefit. Many planners say it makes good sense to keep mortgage debt if it's at a good rate. Most other debt should likely be paid off. Get long term benefits by using

withdrawals to service the mortgage or enhance income, while still growing principal.

Make a Bliss List. Have some fun. Brainstorm all the things you want to do with your money, regardless how crazy the idea may seem. Divide into two lists, "Would Like" and "If Possible." Consult with your financial advisor to see which ones are realistic without going through all your money.

Keep your fortune for the future. Investment (in its many forms) is one of the biggest issues and should be done regardless of other decisions. Retirement comes sooner than we think.

Don't forget about helping others. This is not same as equalizing. This is healthy while equalizing is not. Just think about what matters to you and where you want to make a difference in the world.

For now there are only a few things to think about. Here they are:

Stay calm. Don't make decisions based on emotions.

Seek professional advice.

Avoid pressure from others to make decisions you feel unready for.

Stick to these three even if they seem slow

There are only three phases to all this. They are:

Planning
Action
Monitoring

UNIVERSAL DON'TS:

- Don't give up access to your money
- Don't loan money to friends or relatives
- Don't quit your job until you know you can afford not to work
- Don't take too much—or too little—investment risk
- Don't try to time the market
- Don't invest in illiquid investments
- Don't sink your new wealth into a new business

UNIVERSAL DO'S:

- Do take time to settle into your new circumstances
- Do find a financial advisor to work with
- Do know the range of your possibilities
- Do know which decisions are irreversible before you make them
- Do set long and short term goals
- Do diversify your portfolio
- Do keep a vigilant eye on your tax situation

1. Bradley, Susan, CFP: Sudden Money: Managing a Financial Windfall p. 19



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