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Financial Q&A;: Keep financial plans moving

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Dwight Eisenhower once said: "In preparing for battle, I have always found that plans are useless, but planning is indispensable."

Mike Tyson said: "Everyone has a plan until they get punched in the mouth."

I'll argue that the same is true in your financial life. Why? Because your life is a set of moving targets and changing circumstances. Setting a rigid financial "plan" to these changing factors doesn't fit. Just as a battle plan must consistently adapt to the new facts on the ground, so must your financial planning.

Most everyone with a prospective written financial plan probably felt like throwing it out in 2008-09, as markets dropped in price well below any predicted values. Those nice charts of future wealth and nice graphs moving up and to the right seemed hopelessly and immediately wrong.

We know that markets move in fits and starts, but generally upwards. When I see a long printout of steady increasing returns (and wealth) in a financial "plan," I usually grimace. Sometimes I see plans that add what are called Monte Carlo simulations which will predict that "you have X chance of achieving your goal with this amount of savings and this predicted return on investments." That's a little better, but seemingly too specific as well.

Good financial planning is a continuous process of adding new information about your life circumstances and making adjustments. It involves making very rough predictions of a long-off future. It involves the discussion about adapting to unforeseen circumstances. A good part of good financial planning might involve a statement like: "at the rate you are going, you are likely to be able to spend what you wish to in retirement. However, this assumes that markets perform somewhat like they have in the past, and that no serious alteration occurs in your lives (financial or otherwise.)

It also includes: "We should re-evaluate your progress in six to 12 months, and then again on a regular ongoing basis."

Good financial planning means that you can probably spend more in the early years of your retirement in order to fully enjoy remaining health, while accepting that circumstances may constrain spending later on. But, it might also mean that you adjust your spending upwards if your portfolio does better than expected in the first few years of retirement. Good financial planning is an ever-changing and adapting process that is individualized to your goals and circumstances.

If you have a "plan" somewhere, it might be time to do some modifications and future thinking.

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