

## **Section 1      Nature of Wealth**

### **Chapter 1**

#### ***Introduction to Wealth Flow Concepts***

*Grow It, Protect It, Spend It, and Share It*  
- Stuart E. Lucas, *Wealth*

#### **Key Points**

- Wealth : A life long value based end
- Financed by Economic Resources means
- Accumulation & Distribution phases
- Wealth mgmt. deals with current trends
- Risk awareness needed in all aspects of resources organization

The purpose of the *Lifetime Wealth Guide* is to educate the curious reader about primary wealth flow issues and their related uncertain, risky aspects. Determination to grasp wealth issues by considering and controlling risky elements is more important than a financial degree background. Lawyers, doctors, scientists, and technicians should be as comfortable as accountants with the adaptable approaches presented to accumulate and distribute economic resources. Readers in their wealth accumulation phase (generally between the ages 40 and 65) may have the most need and incentive to consider the ideas developed herein.

Checklists and templates are provided when appropriate to organize key parameters for particular wealth management issues. Yet, successful control of economic resources to achieve unique wealth goals requires more than a cook book set of rules. Individual behaviors and economic conditions change. Scenario analyses are used to show the risks associated with the check lists or rules presented, so that disciplined processes suitable to the reader can be developed. Wealth management, similar to other parts of one's life, involves the creativity to recognize that new conditions may require rule changes, as well the self-discipline to analyze, improve rules, and make decisions confidently.

Ideas and quotes throughout the chapters use an eclectic range of thinkers, who view wealth differently. Benjamin Franklin's *Poor Richard's Almanack* provides common sense ideas for using one's resources that have withstood the test of time. Charles Munger's (Berkshire Hathaway Vice Chairman and Warren Buffett's sounding board) *Poor Charlie's Almanack*

makes available current thoughts on generating wealth. William Shakespeare's writings give us the philosopher's view of life's important values. Lawrence (Yogi) Berra's uniquely American phrases provide common sense views of life's treasures. The different perspectives of wealth are meant to make unusual ideas relevant to a wide spectrum of potentially interested readers.

The word *wealth* is derived from the Old English word *welthe*; that is an abundance of valuable material resources. In that context, material wealth is focused on economic resources. Aristotle in *A Treatise on Government*<sup>1</sup> discussed an ideal community, where the purpose of economic wealth is to possess and quantify resources for trading and to achieve profits for the benefit of the community. He felt that the good of the community was based on the well being of families and the aggregation of families, who live improving and self sufficient lives. Two millennium later Adam Smith in *The Theory of Moral Sentiments*<sup>2</sup> and *An Inquiry into the Nature and Causes of the Wealth of Nations*<sup>3</sup> developed the economic wealth concept in a political perspective. *The Theory of Moral Sentiments* critically examined moral thinking in 1759 and suggested that conscience arises from social relationships. His purpose was to describe the source of mankind's ability to form moral judgments, while being inclined toward self interest. He developed the theory of sympathy, in which the act of observing others makes people aware of themselves and the morality of their own behavior. In the *Wealth of Nations* Smith combined the ideas of sympathy and self interest. It was the first book of political economics. Its main concepts related to wealth and free market societies; division of labor, pursuit of self interest, and freedom to trade. The development of specific skills and division of labor support improved productivity and living standards. The pursuit of self interest in a free society benefits the consumer of goods produced by competing suppliers. Free trade competition in global markets expands benefits to broader societies by building incentives for a variety of goods and services at low real price levels. Smith was wary of conflicts of interest due to the inclination to form collusive relationships to reduce competition. He argued for clearly enforced rules of law. The standard definition of wealth as accumulated economic resources is modified to be a unique individual value. Accumulated economic resources are the means to achieve the specific ends of unique personal wealth.

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The personal flow of resources is the focus. Individual perceptions of wealth vary widely. As we mature and experience changes in outlooks, serious questions “What’s it all about? or What is the meaning of my life?” are normally asked. The answers personalize individual perceptions of wealth as expressions of primary values. For many people, the value of national and domestic security increases with age. Life experiences show that liberties are lost and bad events happen when nations are overwhelmed or domestic democratic order breaks down. Thus, wealth often relates to the value of security and liberty. It also relates to the personal value of happiness, which will be discussed in Chapter 4 concerning behaviors. Happiness is often expressed as self confidence or a positive attitude that economic resources are adequate to meet needs and that primary relationships are trustworthy. Wealth can be found in the Olympian pursuit of being one’s best instead of the quest to keep up with referenced (the Jones) comparable possessions. Abraham Maslow’s *Theory of Human Motivation*<sup>4</sup> discusses a hierarchy of needs and provides another perception of wealth. The previously discussed values of security, liberty, and happiness relate to Maslow’s ascending hierarchy of psychological, safety, belonging, and esteem needs. His highest type of need or value is self-actualization that is a growth or “being” need that includes a sense of creativity and acceptance of facts as well as an ability to solve problems. Finally, wealth is also perceived by some as a quest for significance. The process may include accumulation and distribution of a sizeable amount of economic resources as well as networks that can be used for the perceived good of others. The quest for significance may be motivating the Bill and Melinda Gates Foundation as well as the missionaries actually serving poverty stricken villagers in underdeveloped countries. In Chapter 9 the relationship between personal wealth value ends and economic resource means will be studied thoroughly.

**Human Capital and Financial Capital**

Stuart Lucas, an heir to the Carnation estate, wrote succinctly in the chapter quote, about a household’s wealth cycle. *Grow It, Protect It, Spend It, and Share It*. The subtle message relates wealth resources to both spending and gifting or alternatively means to goals. In *Wealth*<sup>5</sup> Lucas provides descriptions of a process used to transform financial capital, received from

the family sale of the Carnation Milk Company in 1985 to the international giant Nestle Corporation, into multi-generational family wealth. The concepts used by the affluent to accumulate and distribute wealth will be developed for a wider audience.

Economic resources are defined in terms of financial assets; that is, assets that can be valued, traded, and otherwise used. The financial assets are capital. They are further categorized as human capital and financial capital. The categories originate in the Theory of Life-Cycle Investing<sup>6</sup>, where wealth resources are defined in terms of expected and realized capital flows.

Human capital in economic terms is the sum of all expected future (life-time) earned income expressed in today’s purchasing power dollars (currency.) It is expected, but very uncertain. Education, experiences, skills, relationships, and good luck may increase estimated human capital. Unexpected economic conditions, illnesses, accidents, and bad luck may also decrease it dramatically. Skilled physicians are generally in demand for predictably long periods and can estimate their human capital value with relative certainty over that time. Similarly a healthy tenured professor can expect predictable earned income and reasonably estimate her human capital. People continue to need healthcare and education. A rookie professional athlete on the other hand can not make a predictable estimate of athletic related human capital. Since the average athletic career in a given sport is 5 years and a significant number of players suffer career ending injuries, the athlete is wise to get a good financial agent and save a high portion of earnings for at least 5 years. Artists, writers, and entrepreneurs have less glamorous, but highly unpredictable human capital resources. Human capital can also be converted directly to a wealth value without an economic valuation in special cases. Consider a charitable performance by an accomplished pianist. No economic exchanges may be made. However, the audience gains wealth from listening to the music and many may be inspired to either develop their own talents or support similar artists. Thus the wealth of a society’s culture increases.

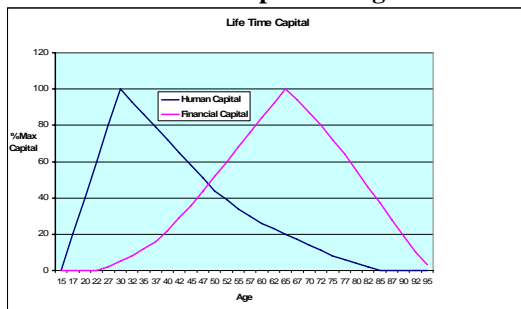
Financial capital is assets that can be converted directly into economic wealth resources. Stocks, bonds, funds, annuities, commodities, and various derived contractual claims are all financial capital. The retained income or savings

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from earned income is human capital converted into financial capital. The growth in investment values, as well as retained dividend and interest distributions, increase financial capital. It may be generally used for a home down payment, degreed or certified education, retirement spending, and gifts (bequeaths). It relates to purchasing appreciating assets, increasing human capital and conversely to deferring immediate consumption. Be aware that consumption of depreciating assets such as trendy electronic items, high maintenance sail boats, or exotic expensive vacations, is spending financial capital. Annuities and various derived contractual claims are included as financial capital because they provide a primary benefit; i.e. cash inflows for retirement spending or deferred consumption. Contractual claims include all insurance (life, disability, home, auto, etc.) beneficiary claims, as well as options for assets, future contracts, and of course various toxic derivatives like sub-prime securities.

Human and financial capital resources should be viewed as means to achieve the previously discussed personally defined wealth values. They are developed, grow, and are distributed over a life time. Figure 1 provides a general idea of capital accumulation and distribution. Notice that both human and financial capital experience accumulation and distribution phases over a lifetime. Based on risks and uncertainties, most people do not experience simple Figure 1 curves to and from peak (100%) human and financial capital values.

**Figure 1. Lifetime potential human and financial capital changes**



During the human capital accumulation phase productive knowledge is nurtured and developed. A formal education, skills, and related personal networks increase human capital (i.e. all expected lifetime earned income) normally between high school and about age 30. Luck (uncertainty) can also cause the peak value and

age at peak of human capital to differ significantly from the general example. A Heisman Trophy awarded football player may be injured in his first professional year and not excel in the NFL. His human capital may have peaked at age 22 when he earned the award and its lifetime value may drop dramatically with the injury. Conversely, a young politician may have aspirations to become a U.S. President; however, the chances of achieving the dream are remote and the peak human capital is indeterminable around age 30. If the politician achieves the dream, human capital increases dramatically on Election Day at perhaps age 47. It is the expected economic rewards for speeches and advice after serving as U.S. president that adds dramatically to personal human capital! The previously mentioned artist, writer, and entrepreneur will also have unpredictable human capital life time curves. In fact, the entrepreneur may have a double peak human capital curve, as an initial venture is widely profitable, plummets with unfavorable conditions, and another promising endeavor occurs later in life. That is the nature of entrepreneurial efforts in an ideal free society. Human capital is used or distributed as it is converted to financial capital with age. Ultimately we arrive at an age, when efforts are no longer paid for and human capital is effectively zero.

Financial capital includes converted and partially saved human capital in various forms that result in financial cash flows. Savings plan (401K, etc.) and directly taxable operating asset (stocks, bonds, funds, options, futures, swaps, real estate, commodities, insurance policies, etc.) claims are convertible to cash flows through a sale transaction. Alternatively, social security payments, pensions, annuities, trusts, and other contractual payments for a set period or life are direct cash flow payments. The operating assets are subject to various ownership risks, which will be discussed in the various chapters explaining risk. Their changes in value over time contribute to an uneven financial capital accumulation and distribution phase curve. On the other hand, the social security, pensions, annuities, and other contractual payment cash flow financial assets are secured by the financial strength of the issuing institution. U.S. social security payments are backed by the full faith of the government. The issuer bears the risk of meeting its contractual obligations. Assuming the issuer of the cash flows is sound, the predictable value over time contributes to a

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smoother financial capital accumulation and distribution curve. The relationship between human capital and financial capital, especially during the accumulation phase, adds another dimension of overall financial capital asset allocation risk. For example, a stock or real estate broker would be wise to reduce investing in speculative stocks or real estate, when the good times are rolling along. Similarly the corporate executive would be wise to not concentrate all financial assets in company stock. Bad times follow good times and the stock broker, realtor, or corporate executive may be earning low or no income at the same time that financial asset values are declining. The financial capital distribution phase is normally the most controllable. Wealth distribution goals are generally categorized as retirement spending and gifting (bequeath). The gifting goals are voluntary. If financial capital is insufficient to meet retirement spending goals, gifting can be reduced. Overall plan budgets must be adjusted, if retirement spending needs to be adjusted to survive. Chapter 5 discusses wealth goals, objectives, flexibility, adjustments, and cash flows during the life cycle of economic resource accumulation and distribution in detail.

Scenario analysis is the technique to be used to make the examples of wealth management factors and risk discussions relevant to a cross section of readers. Knowledge and key variables were considered to settle on the following two scenarios to be used throughout the book. They may generally be considered potentially rich (upper class) and middle class examples. In both cases self discipline and choices are necessary to deal with life's uncertainties.

Scenario 1. Professional career household. Dentist (Age 42), Hygienist (Age 40), Son (Age 12), Daughter (Age 10). Human Capital, Financial Capital, Goals, Income, Risk Tolerances, and Circumstances to be developed as needed in subsequent chapters.

Scenario 2. Single female. Management support career (Age 62) Planning to retire; Human Capital, Financial Capital, Goals, Income, Risk Tolerances, and Circumstances also to be developed as needed in subsequent chapters.

Wealth development and usage take unpredictable paths over a life time. The uncertainties or risks are normal and make life interesting. The challenge is to understand

uncertainties and only take risk, which one has the capacity and fortitude to handle. Long term wealth related trends must also be considered.

**Critical Trends Emphasize the Need for Wealth Management**

The two critical trends of the first decade of the 3<sup>rd</sup> millennium that impact wealth management are the primary retirement wealth accumulation vehicles and longer human being life spans.

There has been a dramatic change between the percentage of U.S. defined benefit (DB) pension plans and defined contribution (DC) tax deferred savings plans available during the past 25 years. Specifically, Table 2 shows the % of employees covered by only retirement benefit DB and DC plans in 1981 and 2001 according to the Center for Retirement Research. (About 25% of employees were offered both plans in each year.)

**Table 2. % of U.S. DB or DC Benefit Plans**

Plan type/year	1981 (%)	2001 (%)
Defined Benefit	57	12
Defined Contribution	19	59

The change shifts investment risk responsibility from the employer to the employee. It is significant because DC account cash flows have a much different employee benefit (risk/return) profile than a comparable DB profile. A pension fund can expect a 6% nominal annual net return with a 50% Equity, 50% Other Asset mix. Normally a plan spreads its risks by paying several thousand employees fixed benefits while asset returns vary annually. Reserves are usually available to withstand draw downs in poor performance years, but remain fully funded. An individual DC investment account holder has a different risk/return profile. That encourages DC plan holders to consider purchasing annuities with some DC plan assets in order to reduce the longevity (a lifetime longer than expected may mean running out of money) risk. The DC savings plan investor needs to understand the nature of risks and risk tolerances as discussed in Chapters 2 through 4 in order to match reasonably achievable goals to his or her actual variable risk tolerance.

We are living longer than our parents and ancestors. Is that a blessing or curse? Our attitudes and economic resources (human and financial capital) determine how we cope with longevity risk. The time horizon for post Age 65

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retirements living (and spending) increased dramatically in the past 100 years. Advanced medicine and cleaner environments are continuing to support the trend. Table 3 indicates recent progress by showing the change in life expectancy for a 65 and 75 yr. old male between 1990 and 2000 according to National Vital Statistics reports.

**Table 3. Male Life Expectancy (years)  
 At Ages 65 and 75 in 1990 and 2000**

Age	1990	2000	% Change 1990-2000
65	15.1	16.3	7.9
75	9.4	10.1	7.4

In 10 years statistically the average male post Age 65 life expectancy increased 7.9%. The Age 75 statistics indicate there is no normal male life expectancy limit in his mid 80's. Be aware that the life expectancy for women at Age 65 is about 2.6 years longer than men. Finally notice the Society of Actuaries RP 2000 projected 50% and 25% probability of life expectancy for a healthy Age 65 male, female, and one of a male/female couple in Table 4.

**Table 4. Age 65 Life Expectancy (years)  
 At 50% and 25% Probability**

Prob. (%)	Male	Female	Couple
50	18.3	20.7	25.0
25	23.9	26.8	29.6

In 2000, the probability that one member of an Age 65 male/female couple will live 30 years was about 25% and the probabilities continue to increase. Time horizon or longevity risk is the most important retirement spending goal risk (i.e. running out of money). The related question is: What life span should an individual or couple plan on? For about half the population it can be estimated within about 3 to 5 years. Heredity, mortality trends, as well as unique circumstances and behaviors are key inputs for thoughtful people to make reasonable estimates.

**Focus On Risk Awareness**

Finally in this introductory chapter on the nature of wealth, risk awareness is considered. Life involves change and uncertainty. Otherwise, stone, cold, and dead is an unattractive alternative. Uncertainty is a risk in all aspects of wealth accumulation and distribution that human beings must deal with. The concept is multi-faceted and thus complex. Resources or

information to make economic resource decisions are often not fully perceived. Is the price of a barrel of oil valued correctly in the market place? If you feel it is mispriced, is your information complete enough and are your convictions strong enough to buy or sell the oil related asset? Even if the information seems compelling, is your information evaluation process adequate? A discipline to evaluate asset risks is necessary simply to decide if the fundamental price is about the same as the market price. Transaction risk is also critical, especially when market trust is wavering. Is the counterparty (the buyer or seller on the other side of the transaction) solvent, liquid, and willing to honor the transaction in question? Section IV addresses specific aspects of fundamental and market risks. The risk should be dealt with through thorough plans. In other words, the plan to meet wealth goals and objectives must be documented. Checklists are helpful prior to making decisions; but scenario analysis is critical to consider what will be done if the asset does not behave as expected. Remember assets may behave much better than expected. Does the market know more than you do? All things considered, is it wise to take some profits off the table? These questions relate to the final aspect of making the deal; that is making confident decisions. The information may be complete, the basic analysis may be sound, and the scenario analysis may be good, but decisions still must be made. As the fighter pilot knows: O, O, D, A; Observe, Orient, Decide, and Act. There are risks in the world of wealth and this books aims to help you be aware of them.

**A Brief Outline of Following Sections and Chapters**

Section I introduces the nature of wealth. Chapter 1 discussed the purpose and structure of the book to this point. Wealth is defined in economic resource and value terms, as well as lifetime accumulation and distribution phases. The major trends concerning financial capital vehicles (DC vs. DB plans) and longer life spans support the claim that knowledgeable wealth management is now more important than in the past. Risk awareness is the key concept that is central to dealing with life's uncertainties. The remaining sections and chapters enlarge an understanding of risk and wealth management in progressive steps to give the reader an opportunity to develop a wealth flow process unique to his or her values.

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Section II presents the nature of risk. Chapter 2 introduces key concepts of risk. Uncertainties exist in life. Some causes of future events can be estimated. Yet, identifying causes of past events to support future estimates may be flawed. Other causes for outcomes, especially in life sciences, are unknowable with man's current knowledge and inability to ask the right questions to identify risks. Catalysts for some events result in phase changes or non linear jumps to new states that limit risk estimate accuracy. Probability theory provides a statistical view of risk with various limitations that are presented. Chapter 3 provides an historical perspective of the evolution of man's risk taking. Survival risks changed and short term risk taking evolved into longer term risky endeavors over time. More knowledge, improved technology, and increased populations made scenario risk analysis more critical as the impacts of key decisions (e. g. destructive wars or productive peace times) increased. Uncertainty is not necessarily a bad risk. Both good luck (unexpectedly being in the right place at the right time) as well as bad luck (being in an unstable situation at the wrong time) occurs. High accuracy missions require complex feedback and control systems to deal with multiple risks (e.g. a manned moon landing). Basic risk control tools of planning, scenario analysis, making multiple independent bets, and insurance are introduced to close the evolution of risk taking topic. Chapter 4 looks inward at human behaviors as a source of risk. The body of knowledge referred to as behavioral finance categorizes both emotional and rational biases. Our general emotional biases toward fear, greed, and hope lead to more specific biases of myopia, overconfidence, and prospect theory. Similarly rational biases toward following a herd of like minded individuals, taking mental shortcuts, and depending exclusively on mechanical rules often result in unnecessary risk taking. Human being survival instincts and biases have not advanced as fast as our advanced knowledge environment. Surveys and brain tests are presented to help the reader become aware of hardwired risk taking tendencies.

Section III presents a basic view of wealth and frames the specific elements of the wealth cycle. Chapter 5 discusses wealth goals and objectives, as well as attitudes and circumstances that change perceptions of wealth. The two scenario examples are developed to consider the different paths of a wealth life cycle. Suggestions are

provided for constructing long term wealth goals, as well as orchestrating the achievement of multiple goals over time. Finally, adjustments are discussed to match economic resources (assets) to selected needs (liabilities), instead of feeling overwhelmed and abandoning goals during hard times. Chapter 6 sets the stage for long term wealth by laying out the specific factors and related risks as a multi-dimensional challenge. Yes, with key virtues – prudence, fortitude, and perseverance – wealth goals can be accomplished. The estimated time horizon or periods of capital accumulation and distribution phases indicate longevity risk. For most people, steady capital accumulation is critical. Whether one retires at Age 65 or Age 75 or works part time prior to full retirement, a conservative estimate of the capital distribution (retirement) phase provides an idea of longevity risk. Table 4 indicated that a 65 year old couple has a 25% probability that at least one member will live 30 years. The withdrawal or spending rate of financial capital during retirement generally suggested by wealth managers is 4%. Yet the sources of retirement spending (pensions or investment distributions) and their actual amounts affect the withdrawal rate, as will be discussed at length. The longevity and withdrawal rate provide an initial idea of the amount of financial capital needed to meet desired retirement spending needs. Risk tolerance is the next factor considered. It changes with circumstances. Suggestions are provided to cope with low risk tolerance through low risk retirement investments. Investment returns earned with well diversified portfolios will be discussed in order to achieve efficient (highest expected return/unit of risk) portfolios. Surprisingly it will be shown that long term returns from balanced equity and bond portfolios will likely earn about the same long term returns as higher risk all equity portfolios. Inflation is the least recognized factor in achieving long term consistent purchasing power retirement income. Be aware, a long term 3½% annual inflation rate cuts the purchasing power of a dollar in half within 20 years! Approaches to minimize the inflation risk are reviewed. Multiple goals of retirement spending and gifting are prioritized in order to remain focused on achieving the primary goal when choices must be made. The final wealth management puzzle factor is tax payments. Tax payments are a certainty. It is important to have a working knowledge of incentives and disincentives within the extremely complex tax codes. After tax returns and total

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resources for wealth goals can be optimized by paying taxes efficiently. An understanding of capital gains taxes, tax loss harvesting, real estate tax accounting, itemized deductions, income tax rate thresholds, and estate taxes is helpful prior to working with tax advisors. Chapter 6 presents the first review of wealth economic resource factors. The orchestration of the factors into a household's unique approach occurs in Section VII: Wealth Cycle Management.

Section IV focuses on investment risks from asset fundamental, market transaction, and useful data perspectives. Chapter 7 reviews fundamental risks that impact the operating valuations of basic asset classes – equities, real estate, debt, commodities, and alternative assets. The major factors – property rights, legal system, macroeconomics, and political influence processes – are initially presented. The specific factors that impact valuations – competition, regulations, tax regime, liquidity, and special circumstances – are subsequently analyzed. A few asset valuation tools are also discussed. Within asset classes, subsets should be both relatively and absolutely evaluated, so that a watchlist of desirable assets can be purchased, when their asking prices are attractive. The concept applies to stocks as well as real estate. Chapter 8 reviews market transaction risks. Supply and demand, as well as liquidity, leverage, and asset risk premiums impact the patterns of asset price movements. A review of historical asset prices, returns, volatility, and correlation provides general ideas of expected future asset and portfolio long term returns. Trends and market emotions add to the short term unpredictability of asset prices. Agency and transaction costs are certain expenses that should be considered in evaluating overall portfolio risks and expected rewards. Finally references and benchmarks are helpful in determining how assets are performing relative to expectations. Chapter 8 focuses on observations and asking meaningful questions. In the short term, patterns are very difficult to spot, because the give and take of buyers and sellers creates noisy data. Finding signals of real trends is what many hedge funds do as they try to arbitrage profitable trades from others in the market place. Meaningful secular trend observations are discussed based on asking independent questions. The questioning process is referred to as the scientific method. The idea is to act like a detective and use data to develop valuable, profitable, information.

Section V focuses on the risk reduction process. The behavior biases discussed in Chapter 4 are analyzed and vaccines are suggested against our most toxic tendencies. Chapter 10 concentrates on emotional biases and suggested controls. Risk tolerances vary with circumstances, so that it is necessary to measure emotions periodically and especially prior to making important impact decisions. Experiences are analyzed and behavior adjustments are discussed. Some biases partially offset each other. A balancing of biases in order to reduce overall bias risks is discussed. The improvement process includes checklists, visualization, and concentration on the most important issues. Analyzing past mistakes, i.e. the school of hard knocks, is a good teacher. The ultimate quest in Chapter 10 is to align and adjust wealth goals to risk tolerance. Chapter 11 builds on the ideas of the prior two chapters. Rational biases are noted and tools to independently estimate fundamental investment potential are explained. Monitoring investment results, volatilities, and relationships is a straight forward process. The key concept presented is to let market price action alert you to unusual behavior and added risk.

Section VI shows how to use risk aware tools in the most critical manner – decision making. Chapter 12 concentrates on the closest thing to a free lunch in an uncertain world – DIVERSIFICATION. There are a number of facets to diversification – portfolio risk/return efficiency, timing asset distributions, and matching sources and uses of cash flows (like your insurer or pension fund does.) Decisions must be made whether to participate in markets or take added risks to attempt the more difficult task of beating the market. These and other risk control topics will be spotlighted. Chapter 13 discusses asset allocation weights and risk factor balancing. The precision of portfolio asset weights, as well as adjustment periods will be considered. In any case, the goal is to achieve consistent returns within the reader's risk tolerance. Chapter 13 is the advanced look at risk for those with the entrepreneurial desire to compete. Risk boundaries and tactical techniques are reviewed. The tactical approach requires intentionally going into troubled waters and discovering if an estimated favorable asset price exists. Scorecards are needed for both emotions and potential financial factors. This is the area where the best professionals excel.

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Section VII brings together previous ideas and suggestions to the book's ultimate purpose – a suggested process for managing the household's wealth cycle. Chapter 15 develops wealth life cycle strategies. The accumulation growth cycle and distribution cash flow cycle are presented through the two ongoing scenarios. Limitations or boundaries for each of the Chapter 6 wealth factors are discussed. Moving closer to the limitations requires greater risk taking and associated better risk controls. Chapter 16 simplifies the investment risk process by introducing insurance or asset inoculation into an investor's tool set. Risk capacity (ability to invest) and varying risk tolerances (willingness to invest) are discussed to complete the risk discussion. Chapter 17 orchestrates the investment process between different strategies using previously discussed tools for the scenarios. It is important for risk takers to improve long term investment processes over time or find competent, trustworthy advisors to provide robust process controls and make appropriate adjustments for a reasonable fee. Either an independent investor or advisor must make disciplined decisions. Chapter 18 is an epilogue. The overall key points of the wealth flow process, scenario analysis, and navigating life's financial uncertainties are summarized. Good luck on the journey!

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<sup>1</sup>Aristotle *Nichomachean Ethics Book 5 Justice A Treatise on Government* 335 BC

<sup>2</sup>Smith, Adam *The Theory of Moral Sentiments* 1759

<sup>3</sup>Smith, Adam *An Inquiry into the Nature and Causes of the Wealth of Nations* 1776

<sup>4</sup>Maslow, Abraham *Theory of Human Motivation* 1943

<sup>5</sup>Lucas, Stuart *Wealth* 2006

<sup>6</sup>Bode, Zvi *Life Cycle Investing in Theory and Practice* 2002